V 88/989/student text

STUDENT TEXT

Volunteer Assistor's Guide

IRS Salutes Volunteers for 20 Years of Making Taxes Less Taxing

READEX FICHE best copy available

Department of the Treasury
Internal Revenue Service
Publication 678 (Rev. 11-89)
Catalog Number 61206C

For use in IRS volunteer programs
VITA Volunteer Income Tax Assistance
TCE Tax Counseling for the Elderly

T22.19/2:

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

Message from the Commissioner

Dear Volunteer:

Whether you're a "first-timer" or a veteran volunteer, I welcome you to the beginning of the 20th year of volunteer assistance to taxpayers performed by people like you across the country and across the generations. In every state and even overseas, grandparents and grandchildren, teachers and students, factory and office workers, people from the professions, all have joined together to help those who need assistance with their basic income tax returns.

You and your neighbors will be among some 90,000 individuals who will assist others in Internal Revenue Service-sponsored (IRS) volunteer programs in 1990. You will be receiving thanks from people to whom your volunteering means a lot -- those for whom professional tax assistance may be out of reach: older, handicapped, non-English speaking and others with special needs. In 1989, volunteers assisted 2.6 million taxpayers. In 1990, you can expect even more customers because there are so many people out there who can use your help, but haven't yet come to you or your fellow volunteers. Activities planned by employees in your local IRS office to celebrate the 20th anniversary of IRS-sponsored volunteer programs should help let these people know your services are available.

In thanking you for your public spirit, I'd also like to ask for your help in ways other than serving as a volunteer assistor. Many volunteers treat their volunteering as a business, although assistance is free of charge. They "grow their business" -- by going out and bringing in more customers, people who need help. These volunteers also expand their "staffs" to meet demand for their services by inviting neighbors and associates to become volunteers. I hope that you will consider doing likewise.

I wish you much success and satisfaction as a volunteer and in your other activities.

Best regards.

Sincerely,

Fred T. Goldberg

Fred T. Goldberg, Jr.

Table of Contents

Introduction / ii

How to Use the Coursebook / vi

Module I (Procedures and Techniques)

Lesson

1 Administrative Procedures / 1
2 Volunteer Assistance Techniques / 8

Module II (Forms 1040A and 1040EZ)

Lesson

1 Form 1040EZ / 16
2 Taxable and Nontaxable Income / 26
3 Filing Status / 29
4 Exemptions / 38
5 Who Must File—Who Should File / 49
6 Income Reported on Form 1040A / 57
7 Who May File Form 1040A / 60
8 Income Entries on Form 1040A / 65
9 Subtractions From Income / 77
10 Computation of Tax / 100
11 Tax Credits and Payments / 136
12 Finishing the Return / 165

Module III (Form 1040)

Lesson

1 Who Files Form 1040 / 170
2 Filing Status and Exemptions / 176
3 Income / 184
4 Adjustments to Income / 222
5 Itemized Deductions / 236
6 Tax Computation / 255
7 Tax Credits / 270
8 Advance Earned Income Credit / 283
9 Payments / 288
10 Refund or Balance Due / 304
11 Finishing the Return / 307

Module IV (Elderly and Advanced Topics)

Lesson

1 Sales of Stock / 310
2 Sale of Home / 345
3 Pensions / 368
4 Taxable Social Security Benefits / 383
5 Credit for the Elderly or the Disabled / 404
6 Tax on Child's Investment Income / 426
7 Estimated Tax and Underpayment of Estimated Tax / 433
8 Tax Withholding (Form W-4 and Form W-4P) / 445

Comprehensive Problems / 471

Answers to Comprehensive Problems / 493

Introduction

The Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA) Programs are designed to provide free tax assistance to persons who may not be able to obtain professional tax help.

The TCE Program provides free tax assistance to elderly persons. Assistance is provided at community locations or at the homes of individuals who cannot travel because of a handicap or other condition.

The VITA Program provides free tax assistance to persons with special needs. Volunteers assist people with basic tax returns. This program is directed particularly to individuals needing assistance, such as non-English speaking, handicapped, and older individuals. Volunteers provide assistance at community locations.

As a volunteer, you will be helping individuals with the preparation of their tax returns. Your role is two-fold: you will teach taxpayers to prepare their own returns, and you will prepare returns for those who are unable to do so themselves. Many taxpayers will be able to prepare their tax returns in the future after acquiring the basic skills at a tax assistance site. Under this **self-help assistance**, taxpayers prepare their own returns with the help of a volunteer assistor. As an assistor, you will "walk through" the return line-by-line to teach taxpayers how to complete their own returns. Individuals who are unable to participate in self-help may have their returns prepared by **direct assistance.** In this case the volunteer will complete the return. Instructions for volunteer assistance are provided in this guide.

You should assist only with returns and supporting schedules and forms for which you have been trained. When you go beyond your training you risk making errors and causing difficulties for those you wish to help. Refer taxpayers with difficult returns that are beyond the scope of your training to appropriate IRS publications or to an IRS office, or suggest they seek the assistance of a professional preparer.

This guide is written as a self-instructional tool although it most often will be used in a classroom situation. The lessons on forms preparation generally follow the sequence of completing the return. Each section of the tax return is addressed and line-by-line instructions enable you to "walk through" the return. New tax law information is highlighted. Exercises and answers are provided in each lesson so you can determine if you are learning the material.

Training is presented in four modules: Procedures and Techniques (Module I), Forms 1040A and 1040EZ (Module II), Form 1040 (Module III), and Elderly and Advanced Topics (Module IV). All volunteers must complete Module I. Volunteers should study Modules II, III, or IV depending on the tax needs of the individuals they will be helping. In Module III, you will study only a basic Form 1040 that includes itemized deductions, the earned income credit, and the credit for child and disabled dependent care expenses. Volunteers assisting the elderly will study Module IV. It contains lessons on subjects that are generally of interest to the elderly. You may need to complete or review Modules II and III before beginning Module IV. Volunteers assisting members of the military personnel will study the Military Supplement, Publication 678M. Publication 17, *Your Federal Income Tax,* will be used by all volunteers as a reference guide, along with the instructions for preparing Forms 1040, 1040A, and 1040EZ.

To ensure a high quality of service for all volunteer assistance, volunteers are asked to take the appropriate tests and achieve a minimum score. Volunteers will take only the section of the test for which they have been trained: Module II, Module III, or Module IV. All volunteers, however, will take the test for Module I. The tests cover the objectives of the course. Volunteers who do not pass a test may take the re-test or elect to participate in some other program activity such as site administration or publicity coordination. Once your training is completed, IRS will continue to provide technical assistance to you. A special toll-free Hotline—**1-(800) 328-8482—** is available for volunteers to call for technical information while assisting at the sites. So that the IRS may collect statistical data for future program planning, volunteers are asked to identify the federal returns they prepare. Forms 1040EZ, 1040A, and 1040 directly prepared by TCE or VITA volunteers should be identified with "TCE" or "VITA" in the "Paid Preparer's" block. This can be done by using preprinted TCE and VITA forms or by writing "TCE" or "VITA" **boldly** in the block on the form. Returns prepared during self-help assistance should be identified as "TCE-X" or as "VITA-T." Additional information is contained in the lesson on finishing the return.

Volunteers will provide other types of assistance as well. For example, you may prepare taxpayers' state and local returns, answer their tax-related questions or help with basic Forms W-4. Because a record of **all** services provided by volunteers helps us determine the scope of assistance you provide, we would appreciate it if you would complete a Volunteer Assistance Worksheet (Form 6522) each day you work at a site. Your coordinator will send the worksheets to the Taxpayer Education Coordinator each day. Information on how to complete Form 6522 can be found in the lesson on administrative procedures.

During this training and while working as a volunteer, do not hesitate to contact the IRS for assistance. Our objective is to provide a quality service. By working together, we can really help those who need assistance.

In addition to this coursebook, Publication 17, *Your Federal Income Tax*, and the instructions to Forms 1040, 1040A, and 1040EZ, the following publications may be useful.

Publication 501, *Exemptions, Standard Deduction, and Filing Information*

Publication 505, *Tax Withholding and Estimated Tax*

Publication 523, *Tax Information on Selling Your Home*

Publication 524, *Credit for the Elderly or the Disabled*

Publication 525, *Taxable and Nontaxable Income*

Publication 544, *Sales and Other Dispositions of Assets*

Publication 551, *Basis of Assets*

Publication 553, *Highlights of 1989 Tax Changes*

Publication 554, *Tax Information for Older Americans*

Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*

Publication 596, *Earned Income Credit*

Publication 910, *Guide to Free Tax Services*

Publication 911, *Tax Information for Direct Sellers*

Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits*

Publication 934, *Supplemental Medicare Premium*

Rounding off. A good way to limit math or transcribing errors is to round off all money items on returns to whole dollars. If you decide to round off, you must do so with all entries on the return and schedules you prepare. This means that you drop amounts less than 50 cents, and increase amounts from 50 to 99 cents to the next dollar. If taxpayers come to you with questions, but plan on preparing their own returns, please explain to them how they can make their task a bit easier by rounding off to whole dollars.

New items for 1989 are identified by a star (★) in the left margin.

Special Note

Some of the forms that are exhibited in this publication may be proof copies which are current as of the date this publication was sent to print. If we were to wait until all the forms were in final format, we could not be able to train volunteers on time. Be sure to compare the final forms with those in this publication before you help taxpayers with their returns.

Supplemental Medicare Premium -- Repealed

As this publication was being prepared for print, both Houses of Congress voted to repeal the supplemental Medicare premium. We will send out an addendum on this subject when final action is taken on this issue. When assisting the taxpayer, you should make certain that you have the most current information available regarding the Medicare Catastrophic Health Insurance premium.

For further information see your local site coordinator or refer to the supplemental training materials.

How to Use the Coursebook

Introduction

The TCE and VITA Programs will enable you to help taxpayers with the accurate preparation of Forms 1040A, 1040EZ, and 1040. The Volunteer Assistor's Guide is your guide to passing the test (or retest) and becoming a volunteer. The coursebook is divided into four sections, or modules:

Module I—Procedures and Techniques

Module II—Forms 1040A and 1040EZ

Module III—Form 1040

Module IV—Elderly and Advanced Topics

There are two ways to complete the training program and become a volunteer:

1. By attending a class (usually a minimum of 4 or 5 days) and passing the test or retest; or
2. By completing the Volunteer Assistor's Guide on your own (self-instruction) and passing the test or retest.

The sequence of lessons in the *Table of Contents* generally follows the same order you will use to complete a return once you reach the volunteer site. In a few instances this does not exactly parallel the order of the tax form itself. For example, while the entity section (taxpayer's name, address, and social security number) appears first on the form, it is in the lesson on *Finishing the Return,* since it is one of the last things to do in completing the return. (For example, did you ever try to pull off one of the stick-on labels after you had found an error on the return?)

Note: The coursebook contains a large number of exhibits of the various tax forms and schedules. These exhibits are numbered starting at the beginning of each lesson. Many of the exercises contain exhibits of blank forms that you must complete. The *Answers to the Exercises* section at the end of each lesson contains the filled-in form with an exhibit number that corresponds to the number of the blank form that you completed for that exercise. For example, if the blank form for an exercise is labeled as **Exhibit 3,** the answer to that exercise will be labeled **Exhibit 3, filled-in.**

Classroom

If you participate in a class, it is important to try to attend all training sessions. This will make mastering the material easier for you. Your instructor may ask you to read parts of the guide in class, and may decide to summarize other parts for you and have you do the reading on your own. The night before class is a good time to read over the lessons you know you'll be covering. This will familiarize you with the material and will make the instructor's explanation and the classroom session more meaningful.

You're always free to read lessons before they are covered in class, to read them again after the lesson has been taught, and to re-work any exercise.

Exercises—It is important that you take the time to do the exercises in order to achieve the objectives in each lesson. Studies have shown that long-term retention of information increases dramatically if you put pencil to paper in responding to questions and problems. The Volunteer Assistor's Guide is your learning tool and you may mark it up in any way you wish.

Exercises are marked in the left column to call your attention to them and remind you that here's a good time to check your learning. Write out your answer and then check it immediately against the one at the end of the lesson. If you have something different, check your answer again and reread any parts of the text that apply if you don't understand.

The exercises are to give you practice, to emphasize what we think is important, and to help you complete your training successfully.

Self-Instruction

When doing self-instruction, it is important to work steadily. The speed at which people work varies widely. We estimate that people new to taxes require anywhere from 20–40 hours to complete Module II. Whether you use more or less time is not critical, since your goal is to achieve the course objectives and pass the test. We also estimate that it may take 30–45 hours to complete Module III, and 20–40 hours for Module IV. Module I should take 1–2 hours to complete.

It is even more important to work the exercises if you are completing the course on your own. Remember to check your answer immediately. If you have something different from ours, check your answer again and reread any parts of the text that apply.

The Test

All volunteers take the applicable tests to show they can complete returns accurately. You may use the Guide and all reference materials to complete the tests. Volunteers who do not pass a test may take the appropriate retest.

Five tests are included in the test booklet. Everyone should take the test for Module I. Then, you should take each test that applies to you. The minimum passing score for each part is 80.

Part I—Module I and General Tax Questions

Part II—Form 1040A and Form 1040EZ

Part III—Form 1040

Part IV—Elderly and Advanced Topics

Part V—Test for Quality Reviewers

Passing Part II of the test or retest certifies you to help prepare Form 1040A and Form 1040EZ. You do not need to take any more tests if your instruction is limited to Form 1040A and Form 1040EZ.

Passing Part III certifies you for Form 1040 preparation.

Passing Part IV certifies you for preparation of the forms and schedules covered in Elderly and Advanced Topics. You need to take Parts II and III of the test even if you take Part IV.

Instructions on the taking and grading of the test are in the test booklets. There is a separate answer booklet that you should return to be corrected.

Free Assistance

You as a volunteer cannot and do not charge for your services. This includes tax advice and return preparation. You may at times need to remind taxpayers that the assistance is **free.**

Taxpayers' Rights

Assisting taxpayers includes helping make sure that they are aware of their rights. IRS distributes Publication 1, "Your Rights as a Taxpayer," free of charge. The publication clarifies taxpayers' rights at each step in the tax process. If the individuals you assist have any questions about their rights, please make sure they obtain a copy at your VITA or TCE site, or be sure to let them know that a copy of Publication 1 is theirs for the asking by calling IRS toll-free at 1-800-424-3676. Taxpayers can help ensure they receive fair treatment in tax matters when they know what their rights are.

Module I

Lesson 1

Administrative Procedures

Objective

At the end of this lesson you will be able to enter the appropriate VITA or TCE designation on the return and complete the Volunteer Assistance Worksheet.

Contents

Introduction

Identifying Returns

Volunteer Assistance Worksheet

Quality Service

Volunteer Hotline

Introduction

You will soon learn how to help taxpayers complete their Form 1040EZ, Form 1040A, and a basic Form 1040. However, several administrative procedures concerning reporting and quality review also require your attention. They are important enough to be taught first.

Confidentiality and Integrity

As a volunteer tax assistor you have a special public trust to maintain the integrity of anyone privy to confidential information. Those taxpayers who seek your assistance place a high degree of confidence in you. Please remember that volunteers are prohibited from accepting compensation from the taxpayer for preparing a federal tax return and otherwise assisting the taxpayer with his or her tax situation. VITA and TCE assistance is free tax assistance. Because of this trust and confidence, you cannot disclose any tax return information you learn as a result of the assistance provided.

Identifying Returns

For training and statistical purposes, IRS asks that federal returns prepared in the TCE and VITA Programs be identified. Forms will be available for use by volunteers and will have "TCE" or "VITA" preprinted in the paid preparer's block. You are asked to print "TCE" or "VITA," as appropriate, boldly in the *Paid Preparer's* block (under the signature line on Form 1040EZ) or to use the preprinted forms that are available from the Taxpayer Education Coordinator.

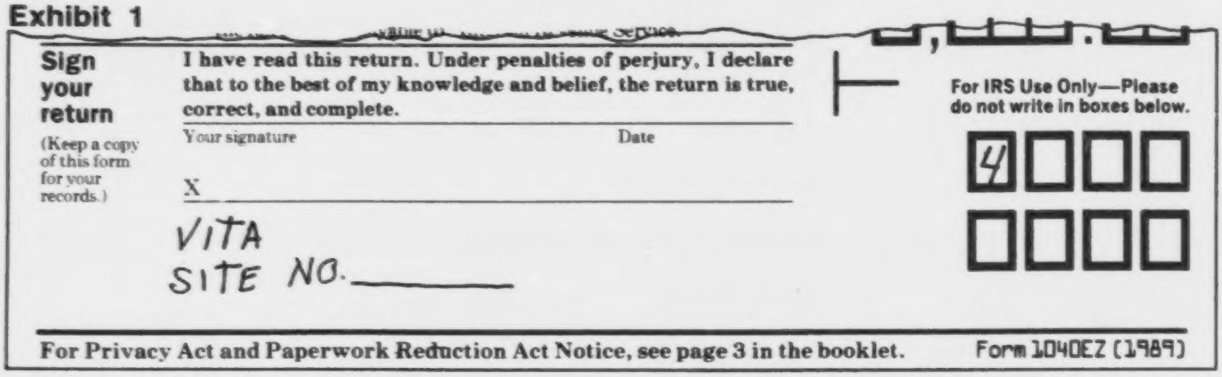
If the return is prepared during a self-help session, write an "-X" after TCE or a "-T" after "VITA." If the preprinted forms are not available at your site, you should write **"TCE"** or **"VITA"** if you give direct help, or **"TCE-X"** or **"VITA-T."** Write the designation through both lines in the preparer's block on Forms 1040A and 1040, and under the signature line on Form 1040EZ. You may also enter your site number on the designated line directly under, and to the right of, "VITA" or "TCE."

Form 1040EZ is currently designed for optical scanning. As previously mentioned, Forms 1040EZ, 1040A, and 1040 will be overprinted with the VITA/ TCE acronyms. If you do not have an overprinted 1040EZ, it will be necessary to write "VITA," "VITA-T," "TCE," or "TCE-X" on the form and enter a number in the "For IRS Use Only" box at the bottom of the form.

The optical scanner reads numbers only. The numbers to be entered in the "For IRS Use Only" box at the bottom of the form are:

VITA	TCE
VITA—4	TCE—1
VITA-T—5	TCE-X—7

Exhibit 1



Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

X

VITA
SITE NO.______

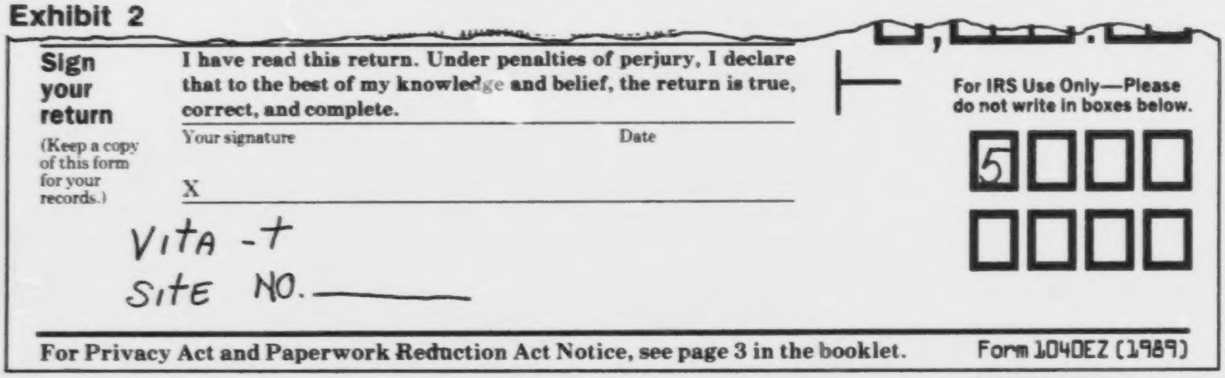
For IRS Use Only—Please do not write in boxes below.

4

For Privacy Act and Paperwork Reduction Act Notice, see page 3 in the booklet. Form 1040EZ (1989)

1040EZ returns designed to be optically scanned that are prepared by direct VITA assistance are identified as "VITA" with a number 4 entered in the "For IRS Use Only" box to the right of the signature block.

Exhibit 2



Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

X

Vita -t
Site NO.______

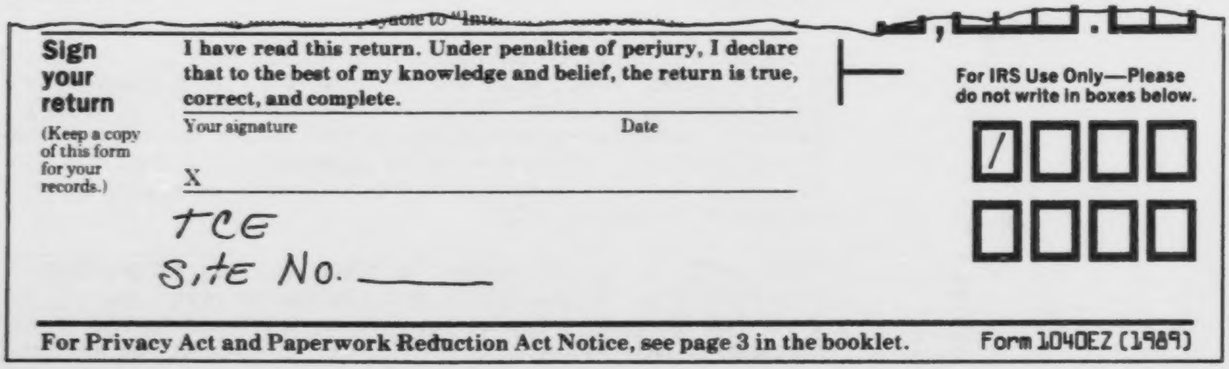
For IRS Use Only—Please do not write in boxes below.

5

For Privacy Act and Paperwork Reduction Act Notice, see page 3 in the booklet. Form 1040EZ (1989)

1040EZ returns designed to be optically scanned that are prepared by self-help VITA assistance are identified as "VITA-T" with a number 5 entered in the "For IRS Use Only" box to the right of the signature block.

Exhibit 3



Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

X

tCE
Site No.______

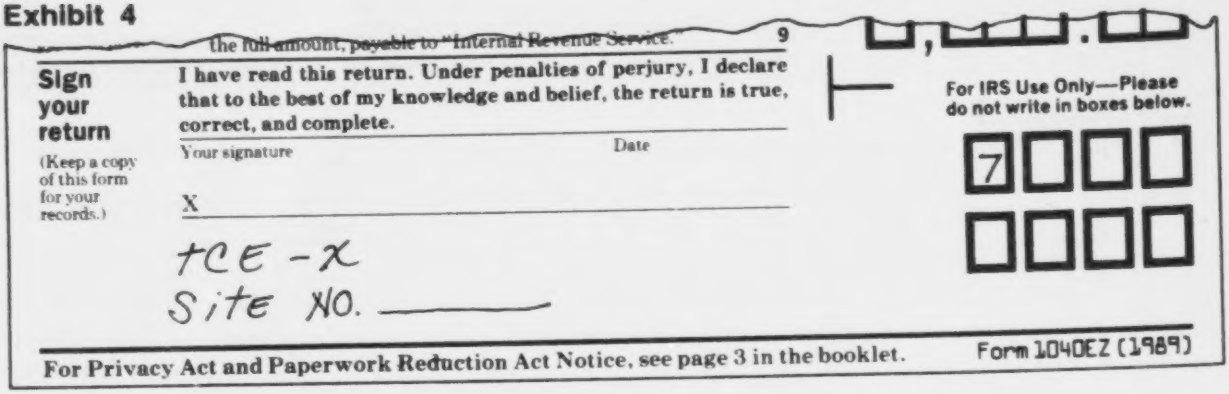
For IRS Use Only—Please do not write in boxes below.

1

For Privacy Act and Paperwork Reduction Act Notice, see page 3 in the booklet. Form 1040EZ (1989)

1040EZ returns designed to be optically scanned that are prepared by direct TCE assistance are identified as "TCE" with a number 1 entered in the "For IRS Use Only" box to the right of the signature block.

Exhibit 4



the full amount, payable to "Internal Revenue Service." 9

Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

X

TCE-X

Site NO. ______

For IRS Use Only—Please do not write in boxes below.

7 ☐ ☐ ☐

☐ ☐ ☐ ☐

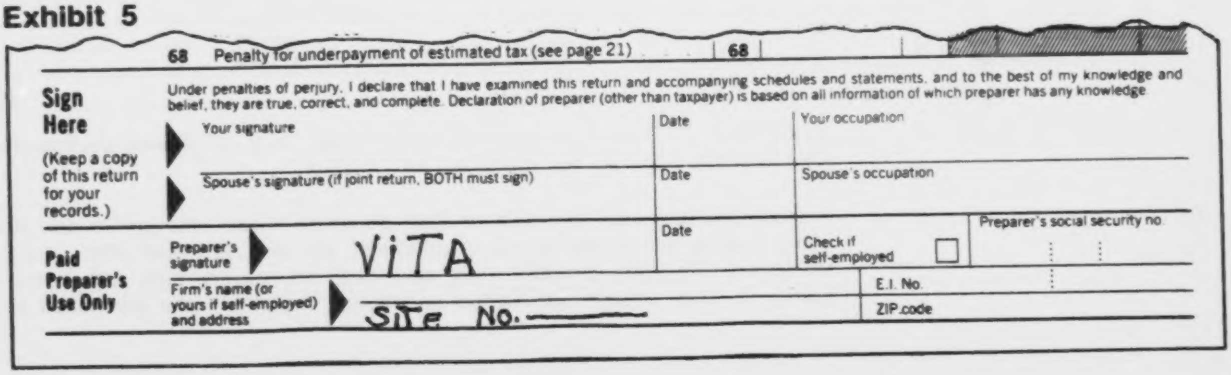
For Privacy Act and Paperwork Reduction Act Notice, see page 3 in the booklet. Form 1040EZ (1989)

1040EZ returns designed to be optically scanned that are prepared by self-help TCE assistance are identified as "TCE-X" with a number 7 entered in the "For IRS Use Only" box to the right of the signature block (Exhibit 4).

The VITA or TCE designation identifies the return as one of thousands prepared in the volunteer programs. Internal Revenue Service Centers count the number of returns prepared by volunteers nationwide, as well as the number of mathematical and procedural errors. No individual records are kept of volunteers' errors. The information is used to plan the program and revise training materials to keep up VITA/TCE's high quality. Returns you identify as VITA or TCE should be substantially (over 50%) prepared by you. You should be reasonably sure that taxpayers will file the return as you prepare it. If you answer questions to help a taxpayer prepare his or her own return, do not mark the return VITA/TCE. Schedules and attachments need not be identified.

VITA or TCE identification does not alter your role as a volunteer assistor. Preparers are usually paid tax professionals and are subject to various IRS regulations. Paid preparers must sign their names and identification numbers on returns. Volunteers receive no pay or compensation for their services and are not legally liable for the return. If the taxpayer asks about the designation, you should explain that it is a way to count the return as one of many prepared through the volunteer program. Identifying volunteer returns does not affect the likelihood of an IRS examination (audit) of the taxpayer's return. You may at this time also need to remind the taxpayer that the volunteer assistance is **free**.

Exhibit 5



68 Penalty for underpayment of estimated tax (see page 21) 68

Sign Here

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date | Your occupation

Spouse's signature (if joint return, BOTH must sign) | Date | Spouse's occupation

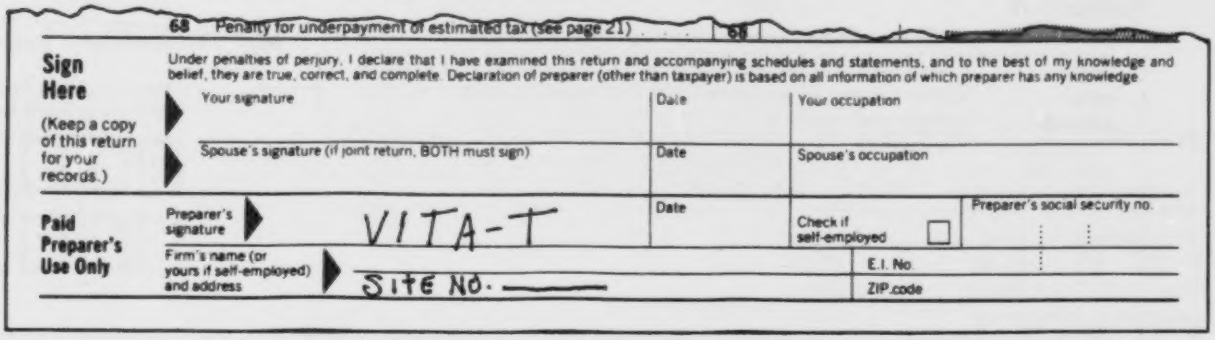
Paid Preparer's Use Only

Preparer's signature VITA | Date | Check if self-employed ☐ | Preparer's social security no.

Firm's name (or yours if self-employed) and address SITE NO. ______ | E.I. No. | ZIP code

1040A and 1040 returns prepared by direct VITA assistance (volunteers preparing the returns) are identified as "VITA."

Exhibit 6

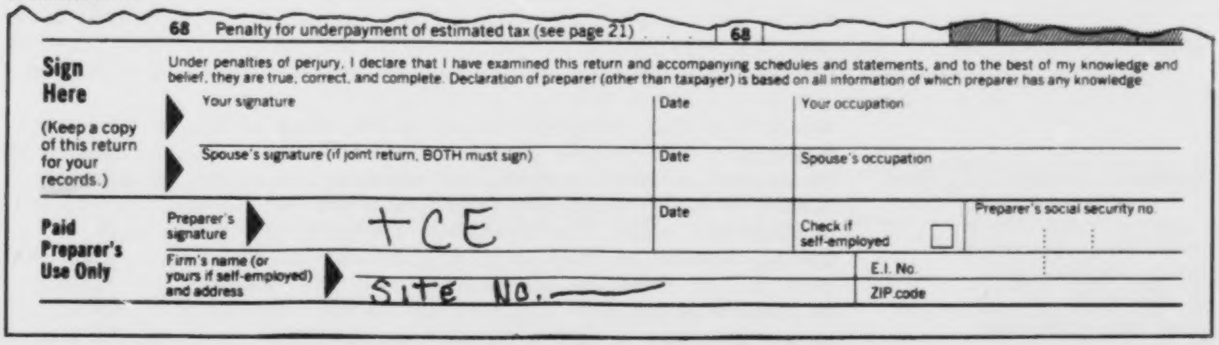


68 Penalty for underpayment of estimated tax (see page 21) . . . 68

Sign Here (Keep a copy of this return for your records.)	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Your signature	Date	Your occupation	
	Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation	
Paid Preparer's Use Only	Preparer's signature VITA-T	Date	Check if self-employed ☐	Preparer's social security no.
	Firm's name (or yours if self-employed) and address SITE NO. ———		E.I. No.	
			ZIP code	

1040A and 1040 returns prepared by self-help VITA assistance (taxpayers preparing the returns) are identified as "VITA-T."

Exhibit 7

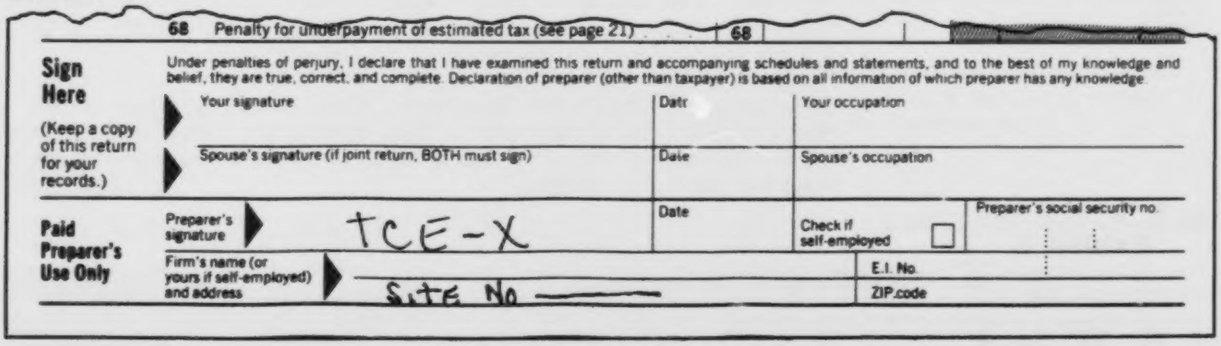


68 Penalty for underpayment of estimated tax (see page 21) . . . 68

Sign Here (Keep a copy of this return for your records.)	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Your signature	Date	Your occupation	
	Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation	
Paid Preparer's Use Only	Preparer's signature TCE	Date	Check if self-employed ☐	Preparer's social security no.
	Firm's name (or yours if self-employed) and address SITE NO. ———		E.I. No.	
			ZIP code	

1040A and 1040 returns prepared by direct TCE assistance (volunteers preparing the returns) are identified as "TCE."

Exhibit 8



68 Penalty for underpayment of estimated tax (see page 21) . . . 68

Sign Here (Keep a copy of this return for your records.)	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Your signature	Date	Your occupation	
	Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation	
Paid Preparer's Use Only	Preparer's signature TCE-X	Date	Check if self-employed ☐	Preparer's social security no.
	Firm's name (or yours if self-employed) and address SITE NO ———		E.I. No.	
			ZIP code	

1040A and 1040 returns prepared by self-help, TCE assistance (taxpayers preparing the returns) are identified as "TCE-X."

Returns marked with the VITA or TCE designation are counted to see how many returns are prepared. As a volunteer, you will also give other types of assistance. You may prepare state and local tax returns, help with basic Forms W-4, or answer tax-related questions. Therefore, you are asked to complete Volunteer Assistance Worksheets each day you work at a site. Complete a line for each taxpayer you help.

You can record assistance for 20 taxpayers on one worksheet. Be sure to check the box indicating "TCE," "VITA," or "LIBRARY" assistance. Complete instructions are on the back of the worksheet.

Exhibit 9

Volunteer Assistance Worksheet

Name ______________________________

Date ____________________ Site Code __________

Check appropriate program category and enter the site code.

☐ VITA

☐ TCE Number of Hours __________

☐ Library

Please complete this worksheet each time you work at a site to help us determine the extent of VITA, TCE, and Library assistance. If you provide assistance in more than one program, please complete a separate worksheet for each program. Also, enter the number of hours used for each assistance effort.

Department of the Treasury
Internal Revenue Service
Form 6522 (Rev. 9/88)

Type of Assistance

	Taxpayers	Married Filing Joint Returns	Individual Federal Returns	W-4 Assistance	State and Local Returns	Other Assistance
	1					
	2					
	3					
	4					
	5					
	6					
	7					
	8					
	9					
	10					
	11					
	12					
	13					
	14					
	15					
	16					
	17					
	18					
	19					
	20					
Totals						

See Other Side for Instructions

VITA and TCE Programs

- Please fill in one line for each assistance effort. If someone asks you for assistance for several people, you will complete a separate line for each one.
- Slash the number in the "Taxpayers" column.
- If you provide assistance on a "Married filing joint return," place a check in the "Joint Returns" column.
- If you complete "Individual Federal tax returns," place a check in the "Individual Federal Returns" column.
- If you prepare 1 or more state and/or local returns, enter the number of returns prepared in the "State and Local Returns" column.
- If someone only asks a question or asks you to review a return, place a check in the "Other Assistance" column.
- At the end of each column on the "Totals" line, add the numbers, checks, or slashes for each column.

W-4 Assistance

- Please slash a number in the "Taxpayers" column for each assistance effort.
- If you assist a taxpayer in any way with a Form W-4, check the "W-4" column.

Library Program

- Please slash a number in the "Taxpayers" column for each assistance effort.
- If you provide assistance with forms and/or publications, place a check in the "Other Assistance" column.

Example

	Taxpayers	Married Filing Joint Returns	Individual Federal Returns	W-4 Assistance	State and Local Returns	Other Assistance
	1		✓		1	
	2		✓		2	
	3					✓
	4	✓		✓	1	
Totals	4	1	2	1	4	1

The example shows that a volunteer provided the following assistance: Taxpayer #1 with an individual Federal, and state return; #2 with an individual Federal, and a state and local return; #3 with review of a Federal and state return already prepared or a question; and #4 with a Federal "married filing joint return," W-4 assistance, and state return.

Please return the completed form to the IRS District Office using a Quality Review envelope, and checking the "REPORTS" box in the lower left corner.

Department of the Treasury
Internal Revenue Service
Form 6522 (Rev. 9/88)

Volunteers return the worksheets to the IRS district office as directed, or the site coordinator may collect and mail them. Volunteer Assistance Worksheets should be mailed in a preaddressed quality review envelope (explained below), with the "REPORTS" box checked in the lower left corner. It is important that you complete these worksheets accurately and return them promptly so we can keep a complete record of all TCE and VITA assistance.

Quality Service

Quality service to taxpayers is the goal of TCE and VITA. It is important to check your work for accuracy. Use a calculator to verify mathematical computations. The *Earned Income Credit Job Aid and Table* will help you figure this credit. If you are uncertain of any tax subject, refer to this coursebook and Publication 17, consult the technical backup at the site, or call the Volunteer Hotline (described later).

Onsite Quality Review

The site coordinator should establish an onsite quality review program to review returns before they are returned to the taxpayer. Reviewing completed returns could prevent the taxpayer from receiving an error notice from IRS. One volunteer should be designated as a quality reviewer or, at smaller sites, you may review each other's work.

District Office Quality Review Program

Under the IRS Quality Review Program, district offices will make a random review of TCE and VITA returns for taxpayers who send in their returns for this purpose and are not making a payment. Preaddressed envelopes with the district office address will be available at the sites. You should offer an envelope to all taxpayers, except when a payment is required, for use in mailing their completed returns.

The Taxpayer Education Coordinator will receive the results of the quality review. The coordinator will provide feedback to all volunteers to alert them to the kinds of errors that are being made. This is not designed to evaluate individual volunteers. No individual records are kept. The purpose is to identify error trends early in the filing season so they can be corrected. This will help to maintain the high quality of volunteer service.

Using the district office quality review envelope could delay processing of the return for a few days. If a taxpayer decides to mail the return directly to the service center, provide the address if he or she does not have the tax package envelope. Offer the district office envelope to the taxpayer first. If the taxpayer asks, explain that using the district office envelope will not make an examination more likely or otherwise affect the return, and that after the return is reviewed at the district office, it is sent to the service center.

Volunteer Hotline

A special toll-free hotline is available for volunteers to call for technical help. Identify yourself as a TCE or VITA volunteer when you call. This number is for technical information only. Send any order for forms or schedules through the IRS Taxpayer Education Coordinator or usual channels. The special Hotline phone number for the coming tax filing season is **1-(800) 328-8482** (328-VITA) except in Alaska and Hawaii. **Do not give the number to taxpayers.** The dates of operation and schedule of hours will be announced by your instructor in training class or by the Taxpayer Education Coordinator. Alaska volunteers should call 271-3730 and Hawaii volunteers should call 546-2168.

Lesson 2

Volunteer Assistance Techniques

Objectives

At the end of this lesson you will be able to:

1. Interview people so that their Forms 1040EZ, 1040A, or 1040 can be completed accurately.
2. Guide taxpayers line-by-line through the tax return to help them prepare their own Forms 1040EZ, 1040A, or 1040.

Contents

Introduction

Interviewing Techniques

Self-Help Assistance Techniques

Introduction

As a volunteer in the Tax Counseling for the Elderly (TCE) Program and the Volunteer Income Tax Assistance (VITA) Program, you will be providing a vital service in helping people prepare their tax returns. Volunteer assistance includes teaching people to prepare their own Forms 1040EZ, 1040A, or 1040. Many taxpayers will be able to prepare their tax returns in the future after acquiring basic skills from you at a volunteer site. This is why you may be offering **self-help assistance,** which invites taxpayers to prepare their own returns under your direction. Persons who cannot take part in self-help assistance will receive **direct assistance.** In this case, you will complete the return.

You should be familiar with certain interviewing techniques to help taxpayers. If you direct self-help assistance, you will also need to learn specialized techniques for this purpose. Interviewing techniques and self-help techniques are discussed in this lesson. Please read all the appropriate sections before you begin to assist taxpayers.

Interviewing Techniques

Your success as a volunteer will depend on your ability to establish rapport and interview taxpayers effectively. First, it is important to put taxpayers at ease. You will go on to ask questions to determine all the benefits and credits they may take. For example, many taxpayers are not aware of the earned income credit or child care credit. When the return is completed, you may need to tell taxpayers to sign and date the return and mail it to the Internal Revenue Service. Interviewing techniques are summarized here in three stages: introductory, questioning, and summary.

Introductory Stage

At this stage, it is important to establish good taxpayer relations. Greet each person you will be helping in a friendly way and introduce yourself. Smile and make eye contact. Wear your volunteer badge. It will let the taxpayer know who you are and that you are a volunteer. If anyone has waited for a long time, apologize for the delay. Many people are nervous when it is time to prepare their income tax returns, so take a few minutes to chat informally if necessary. Always practice the essence of courtesy—a good humor and a readiness to help. If a taxpayer starts complaining, don't take it personally. Listen to the entire complaint. Don't interrupt—that will only make the taxpayer more upset.

Questioning Stage

As an interviewer, you should control the conversation and keep the taxpayer from asking endless unrelated tax questions. It will be helpful to follow these guidelines:

— Phrase questions very clearly and avoid asking multiple questions.
— Listen carefully to the person's response and be patient.
— Repeat questions if necessary. Keep in mind that not everyone understands technical tax terms.
— To the extent possible, explain the return as it is completed so as to teach taxpayers how to prepare their own returns.
— Encourage people to ask questions, if they do not understand.
— If you cannot answer a question, say, "I don't know, but I'll try to find out."
— Research difficult questions in available publications, consult the technical backup at the site, or call the Volunteer Hotline.

It is important to use probing techniques to obtain the tax information that will enable people to claim all the benefits they may take. Following are examples of probing questions you should ask to show taxpayers which return to file and which credits to take.

— Do you pay a babysitter so both you and your spouse may work? If so, you may be eligible for the child care credit.
— Since you are itemizing, did you include transportation expenses in figuring your total medical expenses and charitable contributions on Schedule A? Do you pay for a safety deposit box to store income-producing items such as stocks and bonds? Did you pay someone to prepare your tax return last year? Did you pay union dues, uniform expenses, or have a casualty or theft loss?
— Did you withdraw money from a time savings certificate or certificate of deposit before it matured?
— Did you put any money into an individual retirement arrangement (IRA)? You have until April 16, 1990, to make a contribution to an IRA and claim an adjustment to income for 1989.
— Since you file as single and claim a dependent child, you may be eligible to file as head of household.
— Did your child live with you for more than half the year?
— Since your adjusted gross income is less than $19,340, you may be eligible for the earned income credit. Please answer the questions from the earned income credit worksheet.

Summary Stage

When the return is complete, you will need to give the taxpayers some additional information. If they have overpaid, explain that a refund will generally be mailed within 10 weeks after the return is filed. If taxpayers plan to move, alert them to notify their old post office and the Internal Revenue Service Center so that a refund can be sent as quickly as possible. Advise them to include their social security number in any correspondence with the Internal Revenue Service.

If a balance is due, advise taxpayers to send the check or money order, payable to the Internal Revenue Service, with the return. Instruct taxpayers to include their social security number, daytime telephone number, form number, and tax year on the front of the check or money order. For example, write "1989 Form 1040." Caution taxpayers not to mail cash with their returns.

Have the individuals sign and date their returns. If the return is to be filed jointly and the spouse is not present, remind the person to have his or her spouse sign the return also.

Explain the purpose of the TCE or VITA designation on the return. Tell taxpayers that it is used to identify the return as one of thousands prepared by volunteers like you. Internal Revenue Service Centers count these returns to let the volunteer programs know the total number of TCE and VITA returns prepared nationwide and the quality of these returns. This information is used to plan the program and revise training materials to keep up the high quality of volunteer-prepared returns. If anyone asks, assure him or her that the TCE/ VITA designation does not affect the likelihood of an IRS examination (audit) of the return.

Offer the taxpayer a postage-paid quality review envelope to mail the return, except when a payment is required. If an individual decides to mail the return directly to the Service Center, you should give him or her the address, if the tax package envelope is not available. If a payment is required, the return should be mailed directly to the Service Center for processing.

Instruct taxpayers to mail the return by April 16. Do **not** accept the responsibility of mailing a taxpayer's return.

If you cannot complete the return, refer the individual to an IRS publication, office, or suggest seeking a professional preparer's assistance.

Ask taxpayers if they have any last questions. Return all tax materials and give them a copy of the return for their records. Do not keep a copy.

If a taxpayer needs a copy of a prior year return, it may be obtained from the Internal Revenue Service Center where the return was filed by completing Form 4506, *Request for Copy of Tax Form.*

Thank taxpayers for visiting the site.

Remember to respect the taxpayer's privacy and keep the information you have learned confidential.

Self-Help Assistance Techniques

The self-help concept of returns preparation invites taxpayers to prepare their own returns under the direction of a volunteer assistor. The assistor "walks through" the return line-by-line with taxpayers. The taxpayer, rather than the volunteer, actually prepares the return. Self-help assistance will generally be used for Forms 1040EZ and 1040A; however, it may be appropriate at times for Form 1040 as well.

Your Role in Self-Help

Your role in self-help is that of instructor rather than preparer. As an instructor, you must be able to control the direction of the instruction and the time allotted for the taxpayer to complete his or her own return completely, accurately, and efficiently. It is important for you to be organized to avoid confusing the taxpayer. Answer each taxpayer question clearly and concisely. However, take care to avoid long, time-consuming discussions on individual situations, because they may slow the progress of other taxpayers.

Your positive attitude as an instructor is essential to the success of the self-help technique. You must believe in self-help for it to work effectively. You should be able, through your own commitment, to promote the taxpayer's cooperation in the program. Your enthusiasm will motivate taxpayers. Convey your confidence that they are able to prepare their own returns.

Preparing for Self-Help Assistance

Publicity

With the help of the IRS Public Affairs Office, publicize the availability of self-help assistance so that taxpayers will not be taken by surprise. It is easier to work with a receptive taxpayer who expects to participate actively in preparing the return. Posters may be displayed telling taxpayers about self-help assistance. Direct assistance should be available for those who cannot take part in self-help assistance.

Facilities

Be familiar with the area where self-help assistance will be offered. Is there enough space and equipment to assemble a group preparing returns and to give taxpayers privacy? Is there a waiting area, if necessary?

Materials Needed

Use the checklist below to be sure that all supplies, equipment, and training aids are available.

Self-Help Assistance Checklist

Supplies and equipment:

1. Pens and pencils
2. Scratch paper
3. TCE or VITA overprinted returns and carbon paper
4. Tables or desks
5. Wastebaskets
6. Staplers
7. Volunteer Assistance Worksheets
8. Quality Review Envelopes
9. Earned Income Credit Job Aid
10. List of assistance sites: direct and self-help

Instructor aids:

1. Tax form blowups
2. Chalkboard and chalk
3. Easel
4. Pointer or ruler
5. Publication 17 and appropriate reference materials
6. Instructions for Forms 1040, 1040A, and 1040EZ
7. Volunteer Assistor's Guide
8. Calculator

Self-Help Methods

Basically, there are two methods of self-help:

1. Group-paced method
   —Classroom

—Small group
2. Individually paced method

The main difference is that under the group method each taxpayer works at the same pace, while under the individual method each taxpayer works at his or her own pace. The group-paced method has two variations, including the classroom approach and the small group approach. The individually paced method is best accomplished in a small group. The method used will largely depend on the type of returns being prepared.

Group-Paced Method

Classroom. Taxpayers prepare their returns in groups of up to 20 persons in a somewhat formal classroom situation. This method is particularly suitable for preparing Form 1040EZ and Form 1040A. Two volunteers can participate in this method, one as instructor and one as the roving assistant. As instructor, you will explain the return while the roving assistant is available to answer individual questions. Remember, keep things simple and avoid written instructions whenever possible. Check occasionally to see that everyone is proceeding at the same pace. Allow time for a taxpayer to catch up if necessary.

Use the blowup of Form 1040EZ or 1040A to go through the form line-by-line and explain each entry. Leave the name and address lines until last in case an error is made on the return. When you work with Form 1040A, you may find it helpful to explain the exemptions section before filing status because of the relation of these two topics. Complete your instructions through line 25b, earned income credit. Remember, the credit for child and dependent care expenses is available on Form 1040A. At this point, explain the requirements for the earned income credit using the worksheet in the instructions for Form 1040A. If taxpayers in the group can take the credit, allow time to guide them line-by-line through the worksheet. When you assist with Form 1040EZ, specify what lines are for entering wages, and interest income. For either Form 1040EZ or Form 1040A, go through the tax computation and advise taxpayers to check the tables twice. At this time taxpayers may attach the preaddressed mailing label, if available, or complete the taxpayer identification section. Taxpayers should then sign and date the return.

Small group. The procedure for this method should be basically the same as for the classroom method, except that you will deal with a smaller group and will probably not be helped by a roving assistant. About three to five taxpayers can be helped this way. Here it is essential to keep your explanations simple and answer taxpayers' questions concisely to avoid delaying the progress of the group.

Individually Paced Method

The individually paced method is best accomplished with individuals or in a small group, preferably three to five taxpayers. This method is appropriate for Form 1040 preparation. As instructor, you may wish to cover certain common topics (such as filing status, exemptions, and Form W–2) as a group. Taxpayers would then complete the return at their own pace and you would help each one individually. Another alternative is to allow taxpayers to begin their returns as soon as they arrive at the site and complete the entire return themselves. In this situation, filers could be assisted simultaneously.

This method is especially useful when a low volume of taxpayers does not warrant holding sessions separately. Whatever method you offer, you may adapt it slightly to meet the needs of your specific group.

Quality Review of Self-Help Assistance

All returns prepared by taxpayers should be reviewed for math accuracy and completeness before they leave the site. If a roving assistant is available, he or she might perform the quality review. When reviewing the forms, refer to the Quality Review Checklists in the *Finishing the Return* lessons of Modules II or III. If you have any questions on conducting self-help assistance, contact your Taxpayer Education Coordinator.

Which form should I use?

There are three tax returns for individuals: Form 1040EZ, Form 1040A, and Form 1040. You may use Form 1040 if you want to, but you will probably save time if you are able to

	Filing status	Number of exemptions	Taxable income	Only income from
Form 1040EZ	Single (under 65 and not blind)	No more than one personal exemption for yourself	Only taxable income (line 5) of less than $50,000	• Wages, salaries, tips • Taxable scholarships and fellowships • Interest of $400 or less
Form 1040A	• Single • Married filing joint • Married filing separate • Head of household • Qualifying widow(er) with dependent child	All exemptions that you are entitled to claim	Only taxable income (line 19) of less than $50,000	• Wages, salaries, tips • Taxable scholarships and fellowships • Interest • Dividends • Unemployment compensation
Form 1040	• Single • Married filing joint • Married filing separate • Head of household • Qualifying widow(er) with dependent child	All exemptions that you are entitled to claim	Any amount of taxable income (line 37)	• Wages, salaries, tips • Taxable scholarships and fellowships • Interest • Dividends • Taxable social security and railroad retirement benefits • Unemployment compensation • Self-employment • Rents and royalties • Pensions, annuities, and IRAs • Taxable state and local income tax refunds • Capital gains • Gain from the sale of your home • Alimony received • All other sources

When must I use Form 1040?

You **must** use Form 1040 if:

1. You received **any** of the following types of income:
    - Self-employment income.
    - Taxable social security or equivalent railroad retirement benefits.
    - Certain tips you did not report to your employer.
    - Interest or dividend income as a nominee (that is, in your name but actually belongs to someone else).
    - Capital gain distributions or nontaxable distributions.
    - Income received as a partner in a partnership, shareholder in an S corporation, or a beneficiary of an estate or trust.
2. You received or paid interest on securities transferred between interest payment dates.
3. You were a nonresident alien at any time in 1989 and do not file a joint return.
4. At the end of 1989 you were married to a nonresident alien or dual-status alien who had U.S. source income and who has not elected to be treated as a resident alien. (You may use Form 1040A if you are considered unmarried.)

use Form 1040EZ or Form 1040A instead. However, some people must use Form 1040, as explained below. The chart on these pages will help you decide which form to use.

Adjustments to income	Itemized deductions	Other taxes	Tax credits
No adjustments to income	No itemized deductions	No other taxes	No tax credits
Only the deduction for certain contributions to an IRA (including nondeductible contributions to an IRA)	No itemized deductions	Only: • Advance earned income credit (AEIC) payments • Supplemental Medicare premium (Schedule 2)	Only: • Credit for child and dependent care expenses (Schedule 1, Part I) • Earned income credit
All adjustments to income: • Alimony paid • Penalty for early withdrawal of savings • Deduction for certain contributions to an IRA or Keogh plan (including nondeductible contributions to an IRA) • Deduction for self-employed health insurance • All other adjustments	All itemized deductions (Use Schedule A): • State and local income taxes • Real estate taxes • Interest paid • Gifts to charity • Medical and dental expenses • Casualty and theft losses • Moving expenses • Miscellaneous deductions	All other taxes: • Advance earned income credit (AEIC) payments • Self-employment tax • Tax on qualified retirement plans (including IRAs) • Alternative minimum tax • Social security tax on tips not reported to your employer • Uncollected social security tax on tips shown on your Form W-2 • Supplemental Medicare premium • All other income taxes	All tax credits: • Earned income credit • Credit for child and dependent care expenses • Credit for the elderly or the disabled • General business credit • Foreign tax credit • Credit for prior year minimum tax • Credit for Federal tax on gasoline and special fuels • Mortgage interest credit • All other credits

When must I use Form 1040? (continued)

5. You can exclude **either** of the following types of income:
   - Foreign earned income you received as a U.S. citizen or resident alien.
   - Certain income received from sources in a U.S. possession if you were a bona fide resident of American Samoa for all of 1989.
6. You made estimated tax payments for 1989 (or want to apply any of your refund to your 1990 estimated tax).
7. You are a Federal, state, or local government employee or a railroad employee representative and you can take a credit for excess Medicare (hospital insurance benefits) tax you paid in 1989.
8. You were a grantor of, or transferor to, a foreign trust, OR you had a financial account in a foreign country (such as a bank account or securities account).
9. You were an employee of a church or a church-controlled organization that is exempt from employer social security taxes and you received wages of $100 or more.
10. You are reporting original issue discount (OID) in an amount more or less than the amount shown on Form 1099-OID.

Module II

Lesson 1

Form 1040EZ

Objectives

At the end of this lesson you will be able to:

1. Determine who can use Form 1040EZ.
2. Complete Form 1040EZ.

Contents

Introduction

Who Can Use Form 1040EZ

Who Cannot Use Form 1040EZ

Summary

Answers to Exercises

Introduction

Form 1040EZ is the simplest form that can be filed. Taxpayers should use it if they can. Much of what you will learn later in Module II in areas such as the Presidential Election Campaign Fund, the Tax Table, and the address label, also applies to Form 1040EZ. Be sure to read instructions for the form on how to fill in amounts.

Report on line 1 the total wages, salaries, and tips that the taxpayer received whether or not the taxpayer has a Form W-2 for the amount.

If the taxpayer received tax-exempt interest, be sure to report it on Form 1040EZ. In the space to the left of line 2, write "TEI" and show the amount of the taxpayer's tax-exempt interest.

Most taxpayers will check the "No" box after the question in line 4. For these taxpayers, you will enter $5,100 on line 4. This amount is the taxpayer's combined standard deduction of $3,100 and personal exemption of $2,000. However, if the taxpayer checks the "Yes" box after the question in line 4, you must fill out the worksheet under the *Report your income section of the Instructions for Form 1040EZ. These instructions are found on the back of the form. Line E of the worksheet will tell you what amount to enter on line 4.*

Who Can Use Form 1040EZ

A taxpayer can use Form 1040EZ **only** if all the following apply:

1. The filing status is single.
2. The taxpayer is not age 65 or over or blind.
3. The taxpayer claims no exemptions for dependents.
4. Taxable income is less than $50,000.
5. All income is wages, salaries, tips, and interest.
6. Interest income is $400 or less.
7. The taxpayer does not make any adjustments to income, does not itemize deductions, and claims a credit only for withheld income tax.

Example

Paul G. Waite gives you the following information about himself.

Social security number—647-00-4379

Address—123 Second St., Beau View, Iowa 63497
Age—27
Single
He cannot be claimed as a dependent on another person's return
Not blind
No dependents
Presidential Election Campaign Fund—No
Wages—$12,765
Only other income—$175 interest from savings account
Federal income tax withheld—$1,356
His Form 1040EZ is shown in Exhibit 1.

Exhibit 1

Form **1040EZ**

Department of the Treasury - Internal Revenue Service

Income Tax Return for Single Filers With No Dependents **1989**

OMB No. 1545-0675

Name & address

Use the IRS mailing label. If you don't have one, please print.

LABEL HERE

Paul G. Waite
Print your name above (first, initial, last)

123 Second Street
Home address (number and street). (If you have a P.O. box, see back.) Apt. no.

BeauView, IA. 63497
City, town or post office, state, and ZIP code

Please print your numbers like this: 9876543210

Your social security number: 647 00 4379

Instructions are on the back. Also, see the Form 1040A/1040EZ booklet, especially the checklist on page 14.

Presidential Election Campaign Fund
Do you want $1 to go to this fund? ▶ *Note: Checking "Yes" will not change your tax or reduce your refund*

Yes ☐ No ☒

		Dollars	Cents
Report your income	1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1	12,765	00
Attach Copy B of Form(s) W-2 here.	2 Taxable interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2	175	00
	3 Add line 1 and line 2. This is your **adjusted gross income.** 3	12,940	00
Note: You must check Yes or No.	4 Can your parents (or someone else) claim you on their return? ☐ **Yes.** Do worksheet on back; enter amount from line E here. ☒ **No.** Enter 5,100. This is the total of your standard deduction and personal exemption. 4	5,100	00
	5 Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your **taxable income.** 5	7,840	00
Figure your tax	6 Enter your Federal income tax withheld from Box 9 of your W-2 form(s). 6	1,356	00
	7 **Tax.** Use the amount on **line 5** to look up your tax in the tax table on pages 41-46 of the Form 1040A/1040EZ booklet. Use the **single** column in the table. Enter the tax from the table on this line. 7	1,174	00
Refund or amount you owe	8 If line 6 is larger than line 7, subtract line 7 from line 6. This is your **refund.** 8	182	00
Attach tax payment here.	9 If line 7 is larger than line 6, subtract line 6 from line 7. This is the **amount you owe.** Attach check or money order for the full amount, payable to "Internal Revenue Service." 9	,	.

Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

X

For IRS Use Only—Please do not write in boxes below.

☐☐☐☐
☐☐☐☐

PROOF COPY

For Privacy Act and Paperwork Reduction Act Notice, see page 3 in the booklet. Form 1040EZ (1989)

Who Cannot Use Form 1040EZ

A taxpayer cannot use Form 1040EZ if any of the following applies:

1. The filing status is other than single. The statuses for which taxpayers cannot use Form 1040EZ are: married filing a joint return, married filing a separate return, head of household, or widow(er) with dependent child.
2. The taxpayer is age 65 or over or blind.
3. The taxpayer claims an exemption for a dependent.
4. Taxable income is $50,000 or more.
5. There is income other than wages, salaries, tips, and interest.
6. Interest income is over $400.
7. The taxpayer can take any adjustments to income, itemize deductions, or claim any tax credits other than withheld income tax.

Example

Hilda Hanson gives you the following information about herself.
Age 22
Single
Blind
No dependents
Income shown on Form W-2, $13,000
No other income
Because Hilda is blind, she cannot use Form 1040EZ.

Exercise 1

If the following taxpayers cannot file Form 1040EZ, explain why.

a. Paula Kings gives you the following information:
Age 54
Single
No dependents
Income shown on Form W-2, $20,000
Interest, $325 from savings account
Can she file Form 1040EZ?

Answer

b. George Squire gives you the following information:
Age 63
Single
No dependents
Income from taxable pension, $12,000
Interest, $425 from savings account
Can he file Form 1040EZ?

Answer

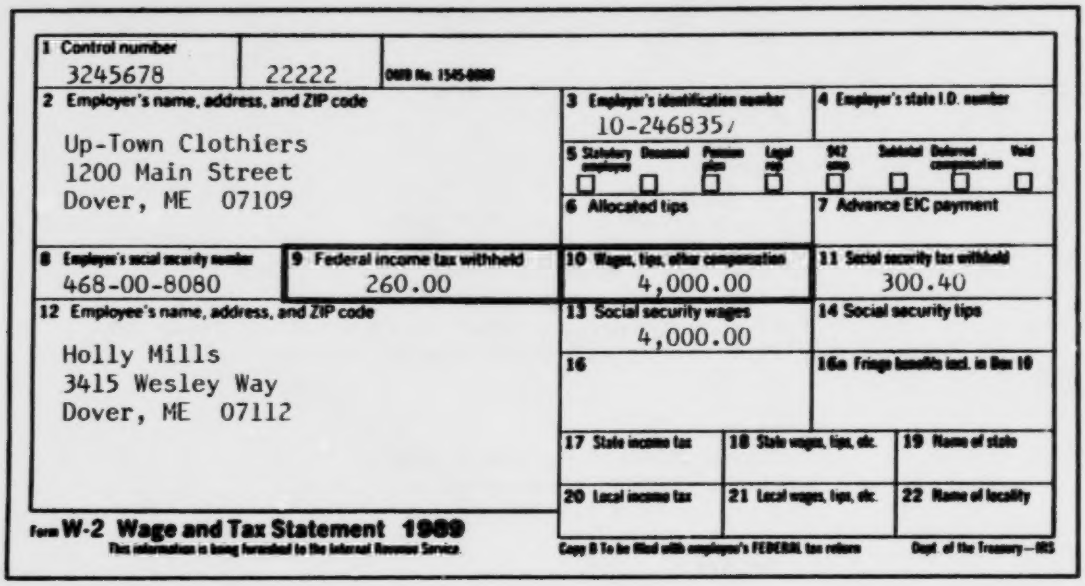
c. Mary Byrd gives you the following information:
Age 32
Divorced
Mary provides over half the support for her daughter, age 12, who lived with her all year
Income shown on Form W-2, $31,000
Interest, $385
Should she file Form 1040EZ?

Answer

Exercise 2

Holly Mills is a high school student. She worked as a clerk in a clothing store during the summer vacation. She could not claim an exemption from withholding, because she had paid tax in 1988. Shortly after Holly left her job and returned to school, she received a Form W-2 (see Exhibit 2) from her employer. Holly had $40 in interest credited to her savings account in 1989. Her filing status is single. Her parents claim her as a dependent on their income tax return. Fill out a Form 1040EZ (see Exhibits 3 and 4) for Holly.

Exhibit 2



1 Control number 3245678

22222

OMB No. 1545-0008

2 Employer's name, address, and ZIP code

Up-Town Clothiers
1200 Main Street
Dover, ME 07109

3 Employer's identification number 10-2468351

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number 468-00-8080

9 Federal income tax withheld 260.00

10 Wages, tips, other compensation 4,000.00

11 Social security tax withheld 300.40

12 Employee's name, address, and ZIP code

Holly Mills
3415 Wesley Way
Dover, ME 07112

13 Social security wages 4,000.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

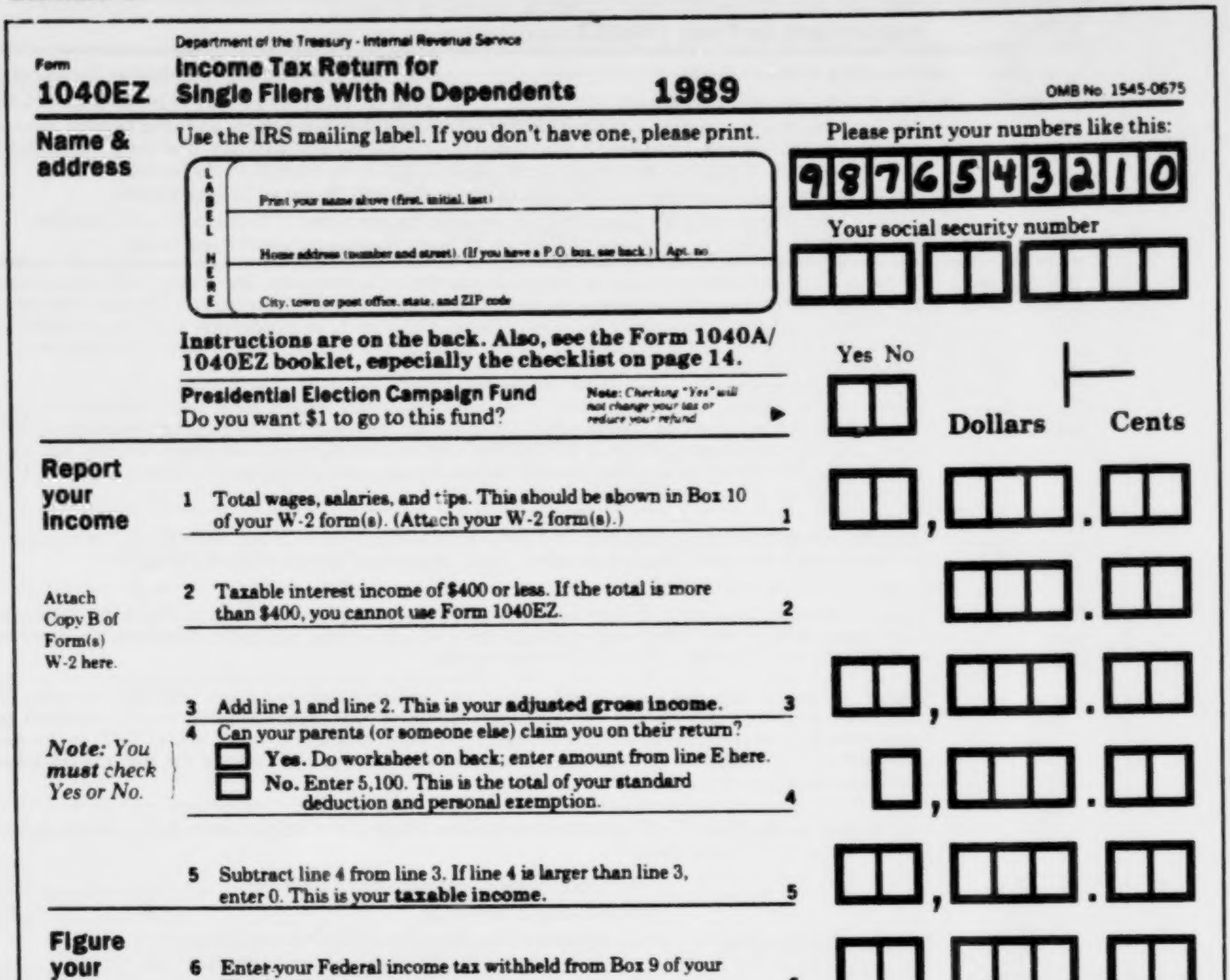
Form **W-2 Wage and Tax Statement 1989**

This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 3



Department of the Treasury - Internal Revenue Service

Form **1040EZ** **Income Tax Return for Single Filers With No Dependents** **1989** OMB No. 1545-0675

Name & address

Use the IRS mailing label. If you don't have one, please print.

LABEL HERE

Print your name above (first, initial, last)

Home address (number and street). (If you have a P.O. box, see back.) Apt. no.

City, town or post office, state, and ZIP code

Please print your numbers like this: 9876543210

Your social security number

Instructions are on the back. Also, see the Form 1040A/1040EZ booklet, especially the checklist on page 14.

Presidential Election Campaign Fund
Do you want $1 to go to this fund? ▶ Yes ☐ No ☐

Note: Checking "Yes" will not change your tax or reduce your refund.

Dollars **Cents**

Report your income

1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1

Attach Copy B of Form(s) W-2 here.

2 Taxable interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2

3 Add line 1 and line 2. This is your **adjusted gross income.** 3

4 Can your parents (or someone else) claim you on their return?

Note: You must check Yes or No.

☐ **Yes.** Do worksheet on back; enter amount from line E here.
☐ **No.** Enter 5,100. This is the total of your standard deduction and personal exemption. 4

5 Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your **taxable income.** 5

Figure your tax

6 Enter your Federal income tax withheld from Box 9 of your W-2 form(s). 6

7 **Tax.** Use the amount on **line 5** to look up your tax in the tax table on pages 41-46 of the Form 1040A/1040EZ booklet. Use the **single** column in the table. Enter the tax from the table on this line. 7

Refund or amount you owe

Attach tax payment here.

8 If line 6 is larger than line 7, subtract line 7 from line 6. This is your **refund.** 8

9 If line 7 is larger than line 6, subtract line 6 from line 7. This is the **amount you owe.** Attach check or money order for the full amount, payable to "Internal Revenue Service." 9

Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

X

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Exhibit 4

1989 Instructions for Form 1040EZ

Use this form if:

- Your filing status is single.
- You were under 65 and not blind at the end of 1989.
- You do not claim any dependents.
- Your taxable income (line 5) is less than $50,000.
- You had **only** wages, salaries, tips, and taxable scholarships or fellowships, and your taxable interest income was $400 or less. ***Caution:*** *If you earned tips (including allocated tips) that are not included in Box 14 of your W-2, you may not be able to use Form 1040EZ. See page 23 in the booklet.*
- You do not owe the supplemental Medicare premium for 1989. See page 35 in th booklet.

If you are not sure about your filing status or dependents, see pages 15 through 20 in the booklet.
If you can't use this form, see pages 11 through 13 in the booklet for which form to use.

Completing your return

Please print your numbers inside the boxes. Do not type your numbers. Do not use dollar signs. You may round off cents to whole dollars. To do so, drop amounts under 50 cents and increase amounts that are 50 cents or more. For example, $129.49 becomes $129 and $129.50 becomes $130. If you round off, do so for all amounts. But if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and round off only the total.

Name & address

Please use the mailing label we sent you. It can help speed your refund. After you complete your return, put the label in the name and address area. Cross out any errors. Print the right information on the label (including apartment number). **If you don't have a label,** print your name, address, and social security number. If your post office does not deliver mail to your home and you have a P.O. box, show your P.O. box number instead of your home address.

Presidential campaign fund

Congress set up this fund to help pay for Presidential election costs. If you want $1 of your tax to go to this fund, check the "Yes" box. If you check "Yes," your tax or refund will not change.

Report your income

Line 1. If you don't get your W-2 by February 15, contact your local IRS office. You must still report your wages, salaries, and tips even if you don't get a W-2 from your employer. Students, if you received a scholarship or fellowship, see page 23 in the booklet.

Line 2. Banks, savings and loans, credit unions, etc., should send you a Form 1099-INT showing the amount of taxable interest paid to you. You must report all your taxable interest even if you don't get a Form 1099-INT. If you had tax-exempt interest, such as on municipal bonds, write "TEI" in the space to the left of line 2. After "TEI," show the amount of your tax-exempt interest. **Do not** add tax-exempt interest in the total on line 2.

PROOF COPY

Line 4. If you checked "Yes" because someone can claim you as a dependent, fill in this worksheet to figure the amount to enter on line 4.

Standard deduction worksheet for dependents who checked "Yes" on line 4

A.	Enter the amount from line 1 on front.	A. ________
B.	Minimum amount.	B. 500.00
C.	**Compare** the amounts on lines A and B above. Enter the LARGER of the two amounts here.	C. ________
D.	Maximum amount.	D. 3,100.00
E.	**Compare** the amounts on lines C and D above. Enter the SMALLER of the two amounts here and on line 4 on front.	E. ________

If you checked "No" because no one can claim you as a dependent, enter 5,100 on line 4. This is the total of your standard deduction (3,100) and personal exemption (2,000).

Figure your tax

Line 6. If you received a Form 1099-INT showing income tax withheld (backup withholding), include the amount in the total on line 6. To the left of line 6, write "Form 1099." If you had two or more employers and had total wages of over $48,000, see page 35 in the booklet.

If you want IRS to figure your tax, skip lines 7 through 9. Then sign and date your return. If you paid too much tax, we will send you a refund. If you didn't pay enough tax, we will send you a bill. We won't charge you interest or a late payment penalty if you pay within 30 days of the notice date or by April 16, 1990, whichever is later. If you want to figure your own tax, complete the rest of your return.

Amount you owe

Line 9. If you owe tax, attach your check or money order for the full amount. Write your social security number, daytime phone number, and "1989 Form 1040EZ" on your payment.

Sign your return

You must sign and date your return. If you pay someone to prepare your return, that person must sign it and show other information. See page 40 in the booklet.

Mailing your return

Mail your return by **April 16, 1990**. Use the envelope that came with your booklet. If you don't have that envelope, see page 49 in the booklet for the address.

Summary

In this lesson you learned who can use Form 1040EZ. Although Form 1040EZ is easier to fill out than Form 1040A, do not forget to review it for accuracy and completeness.

Answers to Exercises

1. a. Yes, Paula can file Form 1040EZ.
   b. No, George received a taxable pension of $12,000. A taxpayer cannot file Form 1040EZ if he or she has taxable income from a source or sources other than wages and interest. George also had over $400 of interest income.
   c. No, Mary's filing status is head of household and she can claim one dependency exemption for her daughter. A taxpayer cannot file Form 1040EZ if his or her filing status is other than single or if he or she claims an exemption for a dependent.

2. See filled-in Exhibits 3 and 4.

Exhibit 3, filled-in

Form **1040EZ**

Department of the Treasury - Internal Revenue Service

Income Tax Return for Single Filers With No Dependents 1989

OMB No 1545-0675

Name & address

Use the IRS mailing label. If you don't have one, please print.

LABEL HERE

Holly Mills
Print your name above (first, initial, last)

3415 Wesley Way
Home address (number and street). (If you have a P.O. box, see back.) Apt. no.

Dover, Me 07112
City, town or post office, state, and ZIP code

Please print your numbers like this: 9876543210

Your social security number: 468 00 8080

Instructions are on the back. Also, see the Form 1040A/1040EZ booklet, especially the checklist on page 14.

Presidential Election Campaign Fund
Do you want $1 to go to this fund? *Note: Checking "Yes" will not change your tax or reduce your refund* ▶ Yes ☐ No ☒

			Dollars	Cents
Report your income	1	Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).)	4,000	00
Attach Copy B of Form(s) W-2 here.	2	Taxable interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ.	40	00
	3	Add line 1 and line 2. This is your **adjusted gross income.**	4,040	00
*Note: You **must** check Yes or No.*	4	Can your parents (or someone else) claim you on their return? ☒ **Yes.** Do worksheet on back; enter amount from line E here. ☐ **No.** Enter 5,100. This is the total of your standard deduction and personal exemption.	3,100	00
	5	Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your **taxable income.**	940	00
Figure your tax	6	Enter your Federal income tax withheld from Box 9 of your W-2 form(s).	260	00
	7	**Tax.** Use the amount on **line 5** to look up your tax in the tax table on pages 41-46 of the Form 1040A/1040EZ booklet. Use the **single** column in the table. Enter the tax from the table on this line.	141	00
Refund or amount you owe	8	If line 6 is larger than line 7, subtract line 7 from line 6. This is your **refund.**	119	00
Attach tax payment here.	9	If line 7 is larger than line 6, subtract line 6 from line 7. This is the **amount you owe.** Attach check or money order for the full amount, payable to "Internal Revenue Service."		

Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature X ____________ Date ____________

For IRS Use Only—Please do not write in boxes below.

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Exhibit 4, filled-in

1989 Instructions for Form 1040EZ

Use this form if:

- Your filing status is single.
- You were under 65 and not blind at the end of 1989.
- You do not claim any dependents.
- Your taxable income (line 5) is less than $50,000.
- You had **only** wages, salaries, tips, and taxable scholarships or fellowships, and your taxable interest income was $400 or less. ***Caution:*** *If you earned tips (including allocated tips) that are not included in Box 14 of your W-2, you may not be able to use Form 1040EZ. See page 23 in the booklet.*
- You do not owe the supplemental Medicare premium for 1989. See page 35 in th booklet.

If you are not sure about your filing status or dependents, see pages 15 through 20 in the booklet.
If you can't use this form, see pages 11 through 13 in the booklet for which form to use.

Completing your return

Please print your numbers inside the boxes. Do not type your numbers. Do not use dollar signs. You may round off cents to whole dollars. To do so, drop amounts under 50 cents and increase amounts that are 50 cents or more. For example, $129.49 becomes $129 and $129.50 becomes $130. If you round off, do so for all amounts. But if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and round off only the total.

Name & address

Please use the mailing label we sent you. It can help speed your refund. After you complete your return, put the label in the name and address area. Cross out any errors. Print the right information on the label (including apartment number). **If you don't have a label,** print your name, address, and social security number. If your post office does not deliver mail to your home and you have a P.O. box, show your P.O. box number instead of your home address.

Presidential campaign fund

Congress set up this fund to help pay for Presidential election costs. If you want $1 of your tax to go to this fund, check the "Yes" box. If you check "Yes," your tax or refund will not change.

Report your income

PROOF COPY

Line 1. If you don't get your W-2 by February 15, contact your local IRS office. You must still report your wages, salaries, and tips even if you don't get a W-2 from your employer. Students, if you received a scholarship or fellowship, see page 23 in the booklet.

Line 2. Banks, savings and loans, credit unions, etc., should send you a Form 1099-INT showing the amount of taxable interest paid to you. You must report all your taxable interest even if you don't get a Form 1099-INT. If you had tax-exempt interest, such as on municipal bonds, write "TEI" in the space to the left of line 2. After "TEI," show the amount of your tax-exempt interest. **Do not** add tax-exempt interest in the total on line 2.

Line 4. If you checked "Yes" because someone can claim you as a dependent, fill in this worksheet to figure the amount to enter on line 4.

Standard deduction worksheet for dependents who checked "Yes" on line 4

A.	Enter the amount from line 1 on front.	**A.** 4,000.00
B.	Minimum amount.	**B.** 500.00
C.	**Compare** the amounts on lines A and B above. Enter the LARGER of the two amounts here.	**C.** 4,000.00
D.	Maximum amount.	**D.** 3,100.00
E.	**Compare** the amounts on lines C and D above. Enter the SMALLER of the two amounts here and on line 4 on front.	**E.** 3,100.00

If you checked "No" because no one can claim you as a dependent, enter 5,100 on line 4. This is the total of your standard deduction (3,100) and personal exemption (2,000).

Figure your tax

Line 6. If you received a Form 1099-INT showing income tax withheld (backup withholding), include the amount in the total on line 6. To the left of line 6, write "Form 1099." If you had two or more employers and had total wages of over $48,000, see page 35 in the booklet.

If you want IRS to figure your tax, skip lines 7 through 9. Then sign and date your return. If you paid too much tax, we will send you a refund. If you didn't pay enough tax, we will send you a bill. We won't charge you interest or a late payment penalty if you pay within 30 days of the notice date or by April 16, 1990, whichever is later. If you want to figure your own tax, complete the rest of your return.

Amount you owe

Line 9. If you owe tax, attach your check or money order for the full amount. Write your social security number, daytime phone number, and "1989 Form 1040EZ" on your payment.

Sign your return

You must sign and date your return. If you pay someone to prepare your return, that person must sign it and show other information. See page 40 in the booklet.

Mailing your return

Mail your return by **April 16, 1990**. Use the envelope that came with your booklet. If you don't have that envelope, see page 49 in the booklet for the address.

Lesson 2

Taxable and Nontaxable Income

Objective

At the end of this lesson you will be able to identify taxable and nontaxable income.

Contents

Introduction

Taxable Income

Nontaxable Income

Summary

Answers to Exercises

Introduction

The lessons in this module will show you how to help taxpayers prepare Form 1040A. The sequence of lessons reflects the general order in which you, the volunteer, will gather information from the taxpayer you are helping.

In this first lesson you will learn to distinguish between taxable and nontaxable income. Only taxable income is used in determining whether an individual must file a return. A person whose income is all nontaxable does not need to file and will not have any income tax liability. The first question you will need to ask is, "What type of income did you receive?"

Taxable Income

Taxable income (also called ***gross income***) is any income that is subject to tax and must be reported on the return (if a return must be filed). The following kinds of income are taxable:

- Wages, salaries, bonuses, and commissions
- Certain fringe benefits
- Tips and other compensation for personal services
- Interest (except on certain state or local bonds)
- Dividends
- Refunds of state and local taxes (if a deduction in an earlier year lowered the individual's tax liability in that year)
- Alimony or separate maintenance payments received
- Business income
- Hobby income
- Capital gains
- Gain from the sale of property
- Pensions and annuities
- IRA distributions
- Rents
- Estate or trust income
- Unemployment compensation
- Railroad retirement benefits (part may be taxable)
- Social security benefits (part may be taxable)
- Jury duty fees
- Executors' fees
- Lottery winnings
- Gambling winnings
- Nonqualifying scholarships and fellowships

Nontaxable Income

Nontaxable income is income that is exempt from tax. If a return must be filed, some nontaxable income must be shown on the return, but is not added into income subject to tax. The following kinds of income are nontaxable:

- Child support
- Federal income tax refunds
- Dividends on veterans' life insurance
- Gifts, inheritances, and bequests
- Insurance and other payments for personal injury and, generally, medical expenses
- Interest on certain state and local obligations
- Most life insurance proceeds paid upon death
- Public assistance payments (welfare)
- Certain railroad retirement benefits (part or all may be exempt from tax)
- Social security benefits (part or all may be exempt from tax)
- Veterans' disability benefits
- Workers' compensation
- Qualified scholarships and fellowships
- ✶ Certain dependent care services provided by employer (earned income up to $5,000)

A more complete listing of kinds of income that must be (or need not be) shown on a return can be found under *Income* in the instructions for Form 1040.

Example

Mary Willow received the following kinds of income in 1989: wages, interest, child support, alimony, inheritance, workers' compensation, and lottery winnings. Mary must include the wages, interest, alimony, and lottery winnings on her 1989 tax return. She does not have to show the child support, inheritance, or workers' compensation on her tax return.

Complete the following exercises and check your answers with those at the end of this lesson.

Exercise 1

Indicate whether the income listed is taxable.

	Yes	No
a. Wages, salaries		
b. Dividends from stock		
c. Veterans' disability benefits		
d. Interest from savings accounts		
e. Dividends from credit unions		
f. Cash bonuses		
g. Inheritances		
h. Tips		
i. Workers' compensation		
j. Dividends on veterans' life insurance		

Exercise 2

a. Mr. Turner, who is single, tells you he had the following income in 1989:
Fully taxable pension—$400
Interest—$65
Wages—$960
Nontaxable social security benefits—$1,200
What is his total taxable income for 1989?

Answer

b. Ms. Dale states she received the following income for 1989:
Gifts from her parents—$2,000
Child support—$4,000
Alimony—$2,000
Trust income—$6,000
Interest from a savings account—$500
What amount does she have to include in her income?

Answer

c. Martha Smith, who is single, asks you to prepare her 1989 return. She had the following income:
Nontaxable social security benefits—$3,600
Fully taxable pension—$12,000
Interest—$1,000
What amount does she have to include as income?

Answer

d. Mr. Young says that he inherited some property with a value of $50,000. Does he include this as income?

Answer

Summary

In this lesson you have learned to identify taxable and nontaxable income. Taxable (gross) income is used in determining whether an individual must file a return. A person who has only nontaxable income is not required to file a return. In the following lessons you will study other factors that will help you determine who must file a tax return.

Answers to Exercises

1. a. Yes.
   b. Yes.
   c. No.
   d. Yes.
   e. Yes.
   f. Yes.
   g. No.
   h. Yes.
   i. No.
   j. No.
2. a. $1,425.
   b. $8,500.
   c. $13,000.
   d. No.

Module II

Lesson 3

Filing Status

Objective

At the end of this lesson you will be able to determine if a taxpayer's filing status is single, married filing jointly, married filing separately, head of household, or qualifying widow(er) with dependent child.

Contents

Introduction

Filing Status Section

Single

Married Filing Joint Return

Married Filing Separate Return

Head of Household

Married Persons Living Apart with Dependent Children

Qualifying Widow(er) with Dependent Child

Additional Points

Summary

Answers to Exercises

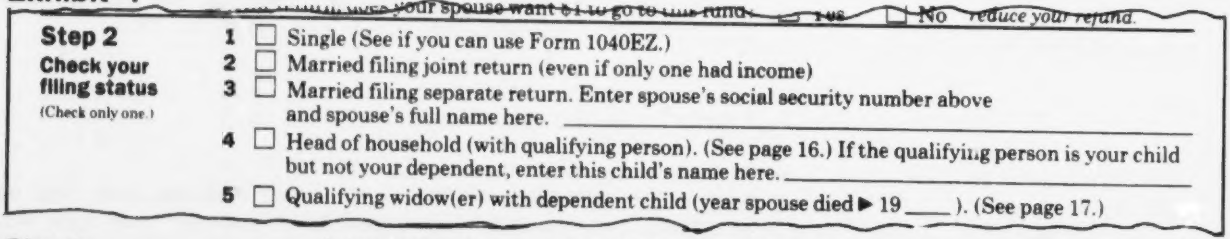
Introduction

The filing status a taxpayer may use depends on the taxpayer's marital status and other factors. Filing status determines the rate at which income is taxed. The lowest rate is ***married filing joint return*** (this rate is also used by certain ***qualifying widow(er)s with dependent child,*** discussed later) followed by ***head of household.*** The next higher rate is ***single.*** The highest rate is ***married filing separate return.*** If more than one filing status applies to a taxpayer, choose the one filing status that will give the lowest rate.

Filing Status Section

Form 1040A lists five filing statuses, as shown in Exhibit 1.

Exhibit 1



☐ No *reduce your refund.*

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Single

A taxpayer may use the single filing status if on the last day of the year he or she had never married, was divorced, or was widowed. However, some taxpayers who may use the single filing status may also qualify for the head of household filing status or the qualifying widow(er) filing status.

Some states have "separate maintenance decrees" that allow taxpayers to be considered single. These taxpayers will usually be able to tell you if they qualify.

Example

Richard and Joan Teller were divorced December 31, 1989. They each file as single on their 1989 returns. They cannot file a joint return.

Married Filing Joint Return

Taxpayers may check this status if they are married, even if only one spouse had income. They are considered married all year if on the last day of the tax year one of the following applies:

1. They are married and live together as husband and wife.
2. They live together in a common law marriage recognized in the state where the taxpayer now lives or in the state where the common law marriage began.
3. They are married and live apart, but are not legally separated under a decree of divorce or separate maintenance.
4. They are separated under an interlocutory (not final) divorce decree.
5. The taxpayer's spouse died during the year and the taxpayer has not remarried.

A married taxpayer who has a dependent child and lived apart from his or her spouse during the last 6 months of the year may qualify to file as ***head of household***. See *Married Persons Living Apart with Dependent Children,* later in this lesson.

If a taxpayer files a joint return, you must combine the husband's and wife's income on the same return. Both husband and wife must sign the return and both are responsible for any tax due on that return. The joint tax rates are the lowest tax rates and usually result in the lowest total tax.

Exercise 1

a. Can a taxpayer qualify for more than one filing status?

Answer ________________

b. How many filing status boxes can be checked on any one return?

Answer ________________

c. Can married taxpayers file a joint return even if only one has income?

Answer ________________

Exercise 2

a. Susan and Sam Calhoun visit your site. They tell you they got married on December 31, 1989. May they file a joint return for 1989?

Answer ________________

b. Susan had earnings of $6,000 in 1989. Her husband, Sam, had earnings of $7,500. How much income should they report on their joint return?

Answer ________________

c. Tom Tucker asks you for help in deciding which filing status to use. You ask him if he is married and he tells you that he was divorced in November but supported his wife all year. He has not remarried. Can Tom file a joint return?

Answer ______________

Married Filing Separate Return

A taxpayer who is married may choose to file separately. The taxpayer reports only his or her own income and deductions. A taxpayer may choose this status whether or not his or her spouse had income. Generally, when married taxpayers file separately, each of them may claim only his or her own personal exemption, but in certain cases described in lesson 4, a taxpayer filing separately may claim his or her spouse's personal exemption.

The tax rates are highest for the "married filing separate return" status and usually result in a higher total tax. Occasionally separate returns can result in a lower total tax. If taxpayers have any question about whether filing separately rather than jointly would result in a lower total tax, they should figure their tax both ways.

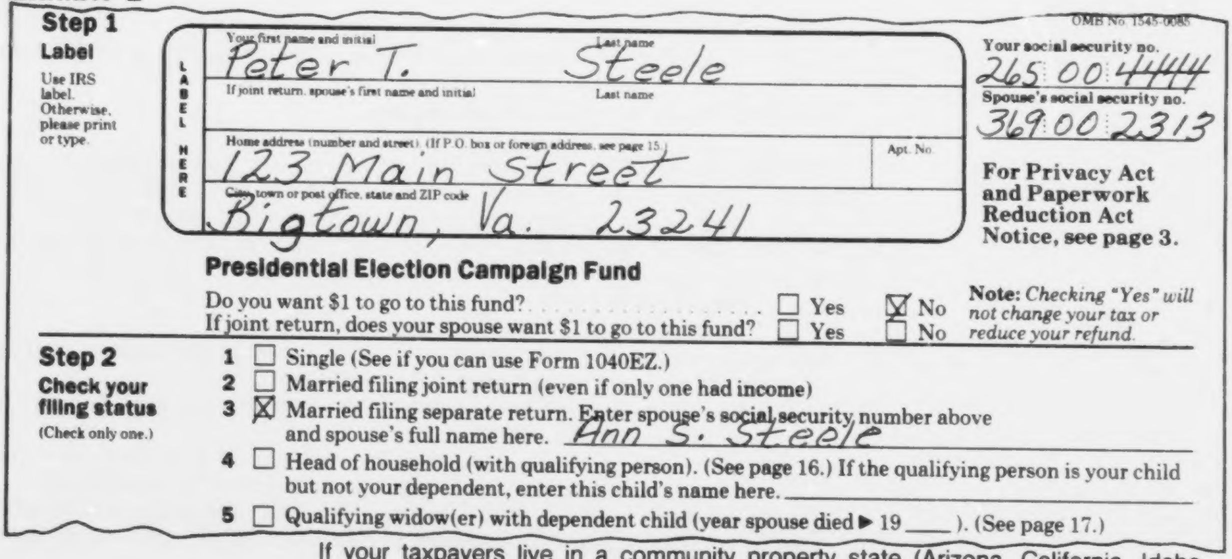
Taxpayers may prefer to file "married filing separate return" when they don't want to be responsible for their spouse's tax. If a husband and wife file separately, and one spouse itemizes deductions for medical expenses, interest expenses, and so forth, the other spouse should also itemize because he or she cannot take the standard deduction. Itemized deductions are discussed in Module III.

When a married taxpayer files separately, he or she must show the spouse's name and social security number on the return.

Example

Peter T. and Ann S. Steele are married and want to file separate returns. Peter had wages of $6,500 and Ann had wages of $12,000. They have no dependents. Steps 1 and 2 of Peter's return are shown in Exhibit 2.

Exhibit 2



OMB No. 1545-0085

Step 1
Label
Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Peter T.
Last name: Steele
Your social security no.: 265 00 4444
If joint return, spouse's first name and initial
Last name
Spouse's social security no.: 369 00 2313
Home address (number and street). (If P.O. box or foreign address, see page 15.): 123 Main Street
Apt. No.
City, town or post office, state and ZIP code: Bigtown, Va. 23241

For Privacy Act and Paperwork Reduction Act Notice, see page 3.

Presidential Election Campaign Fund

Do you want $1 to go to this fund? . . . . ☐ Yes ☒ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☒ Married filing separate return. Enter spouse's social security number above and spouse's full name here. Ann S. Steele
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 17.)

If your taxpayers live in a community property state (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin), they must follow state law to determine their separate income. For details, refer taxpayers to Publication 555, *Community Property and the Federal Income Tax.*

Head of Household

The "head of household" filing status causes more confusion among taxpayers than any other status because the qualifications are complex. In general, a taxpayer is a "head of household" when he or she is single and pays more than half the cost of keeping up a home during the year for a relative. The relative must live in the same home as the taxpayer, for more than half of the year, unless the relative is the taxpayer's parent. The cost of keeping up a home includes rent, mortgage interest, taxes, insurance on the home, repairs, utilities, domestic help, and food eaten in the home.

The head of household tax rates are lower than the single tax rates. A taxpayer who can file as head of household should do so.

Dependency Tests

To understand the head of household qualification rules you need to be familiar with the word "dependent." As you will learn in a later lesson, to claim a dependent for tax purposes, all the following tests must be met:

1. Support test.
   The taxpayer must provide over half of the dependent's support during the year. Support includes items such as food, a place to live, clothes, medical care, and education.
2. Gross income test.
   The dependent must have less than $2,000 of gross income. This test does not apply if the dependent is the taxpayer's child who is under age 19, or who is a full-time student under age 24 for some part of at least 5 calendar months during the year, and all the other tests are met.
3. Member of household or relationship test.
   The dependent must be related to the taxpayer (a cousin is not considered a relative for tax purposes), or live in the taxpayer's home for the whole year except for temporary absences.
4. Citizenship test.
   The dependent must be a U.S. citizen or resident, or a resident of Canada or Mexico.
5. Joint return test.
   The dependent, in general, cannot be a person who files a joint return.

Rules for Filing as Head of Household

The taxpayer must be single on the last day of the year or meet the tests described later under *Married Persons Living Apart with Dependent Children.* The taxpayer must pay more than half the cost of keeping up a home during the year that is the principal home for more than half the year (except for temporary absences such as those for school, vacation, and medical care) for any of the following:

1. The taxpayer's unmarried child, who must live with the taxpayer and who does not have to be the taxpayer's dependent.
2. The taxpayer's foster child, who must live with the taxpayer and who must be the taxpayer's dependent.
3. Any of certain relatives (a cousin is not considered a relative), who must live with the taxpayer and who must be the taxpayer's dependent.
4. The taxpayer's married child, who must live with the taxpayer and who must be the taxpayer's dependent unless the child is not a dependent because:
   a. The taxpayer signed a written declaration that allows the noncustodial parent to claim the dependent, or

b. The noncustodial parent provides at least $600 for the support of the dependent and claims the dependent under a pre-1985 agreement.

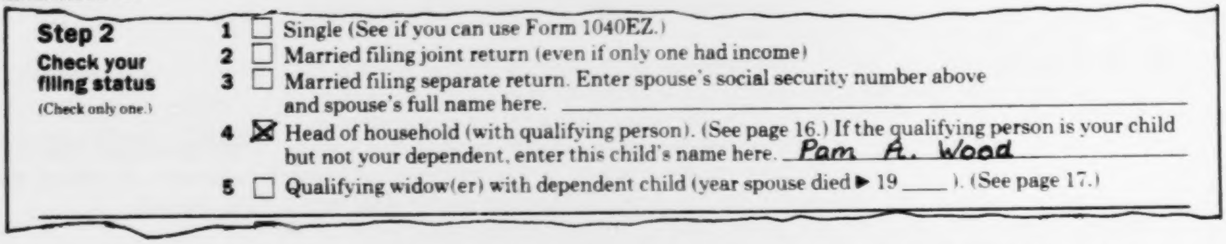
5. The taxpayer's parent, who does not have to live with the taxpayer but who must be the taxpayer's dependent. If the parent does not live with the taxpayer, the taxpayer must pay more than half the cost of maintaining the parent's home for the entire year.

Important: "Child" includes grandchild, stepchild, and adopted child. Lesson 4 (Module II) and the instructions for Form 1040A contain a list of "relatives" for tax purposes.

Examples of taxpayers who qualify as head of household follow:

1. Mary is divorced and has custody of her 4-year-old dependent twins. She paid over half the cost of keeping up a home for the twins, who lived with her all year.
2. Jane A. Wood is divorced and provided over half the cost of keeping up a home. Her 5-year-old daughter, Pam A. Wood, lived with her for seven months last year. Jane does not claim her daughter as her dependent; her ex-husband does. Jane should enter her daughter's name on the line at the end of box 4 (see Exhibit 3).

Exhibit 3



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________
4 ☒ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. Pam A. Wood
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 17.)

3. Martha is single and paid more than half the cost of keeping up her home. Her grandmother lives with her and she claims her grandmother as a dependent. (If Martha could not claim her grandmother as her dependent, she could not file as head of household; only a ***child*** can qualify a taxpayer as head of household ***without*** being a dependent.)
4. Benjamin is single and paid over half the cost of keeping his father in a nursing home. Benjamin's father is his dependent. (Only the taxpayer's parent does not have to live in the same home as the taxpayer.)

Examples of taxpayers who do ***not*** qualify as head of household follow:

1. Mike is divorced and his son lived with him only during the summer.
2. Louise was separated from her husband in September and provided a home and support for her child after the separation. Louise is still married on December 31, 1989.
3. Tom, who lives alone, paid all the expenses of keeping up a home for himself.

To file as head of household, a single, divorced, or legally separated taxpayer must provide over half the cost of keeping up a home during the year for a qualifying relative who lives there for more than half the year. Referring to the following chart may help you with taxpayers at your site.

Relationship to Taxpayer	Must Live with Taxpayer?	Must Be Taxpayer's Dependent?
Unmarried child, grandchild, stepchild	Yes	No
Mother, father	No	Yes
Other relatives, except cousins	Yes	Yes
Cousins	Do not qualify	

Exercise 3

a. Mrs. Zapata tells you that she is divorced and that her 21-year-old unmarried son lived with her all year. She paid for their rent and food and provided over half of her son's total support. Her son, whom she cannot claim as a dependent because he earned at least $2,000 and is not a student, used his earnings to pay for his car, clothing, and entertainment. Can Mrs. Zapata file as head of household?

Answer ____________________

b. Miss York lived with her roommate, who was unemployed all year. Miss York had to pay more than half of the cost of keeping up their apartment. Can Miss York file as head of household?

Answer ____________________

c. Mr. Calhoun is single. His mother lived alone in an apartment. Mr. Calhoun paid for the upkeep of his mother's apartment, although he cannot claim her as his dependent. What is Mr. Calhoun's filing status?

Answer ____________________

Married Persons Living Apart with Dependent Children

A married taxpayer who lives apart from his or her spouse, and meets certain tests, may be considered unmarried and file as head of household. This provision is particularly advantageous to taxpayers who otherwise would have to use the married filing separately status. You may be able to help a number of taxpayers who qualify for this provision but do not know of it.

A married taxpayer can file as ***head of household*** if:

1. The taxpayer does not file with the spouse,
2. The taxpayer paid more than half of the cost of keeping up his or her home for the year,
3. The taxpayer lived apart from his or her spouse during the last 6 months of the year, and
4. The taxpayer's home was the principal home of the taxpayer's child or stepchild, whom the taxpayer can claim as a dependent, for over 6 months of the year.

Exception: The taxpayer does not have to claim the child as a dependent if he or she signed a statement allowing the noncustodial parent to claim the dependent, or the noncustodial parent provided at least $600 for the child's support and can claim the dependent under a pre-1985 agreement.

Exercise 4

a. Thomas Dawes has not lived with his wife for several years. His wife has custody of their children, although Thomas sends money for their support. What is Thomas' filing status?

Answer ____________________

b. Jack Banks has not lived with his wife for 2 years. He hasn't gotten a divorce. Their children, whom Jack can claim as dependents, live with him. He does not want to file with his wife. Which filing status would you suggest Jack use? Which filing status should his wife use?

Answer ____________________

c. Martha Graves left her husband in August 1989 and took their children with her. She supported the children during 1989 and will claim them as dependents. Assuming that she will not file with her husband, which filing status should Martha use in 1989?

Answer ____________________

Qualifying Widow(er) with Dependent Child

If the taxpayer's spouse died during 1987 or 1988, and the taxpayer did not remarry before the end of 1989, he or she may be able to file as a qualifying widow(er) with dependent child. A taxpayer with this filing status figures tax using the lowest tax rate (for married filing jointly).

To qualify, the taxpayer must meet all of the following tests:

1. Have been entitled to file a joint return for the year the spouse died (it does not matter whether a joint return was actually filed);
2. Have a child, foster child, adopted child (including a child placed with the taxpayer by an authorized placement agency for legal adoption), or stepchild who qualifies as the taxpayer's dependent for the year; and
3. Have furnished over half the cost of keeping up a home which was the principal home of the child for the entire year.

A taxpayer who files as a qualifying widow(er) may not claim an exemption for the deceased spouse. That exemption may be claimed only for the year of death on a joint or separate return. Qualifying widow(er) status applies for the following 2 years, which means that if the spouse died before 1987, the taxpayer cannot file as a qualifying widow(er) for 1989. The correct filing status would be single unless the taxpayer qualifies as head of household. A taxpayer who files as a qualifying widow(er) must list the year of death of the spouse on line 5 of Form 1040 or Form 1040A.

Example

Paula Scott's husband died in 1987. Paula has not remarried. She has maintained a home for herself and her dependent son, Joshua, during 1988 and 1989. Paula could have filed a joint return with her late husband in 1987. For 1988 and 1989, she may use the joint rates because she is a widow with a dependent child. During your interview with Paula, you determine that she does not have enough deductions to itemize, she owes no additional taxes, and she cannot claim any credits other than her withheld tax. She, therefore, can file a Form 1040A for 1989. If she qualifies, Paula may file as head of household for 1990 and later years.

Additional Points

1. Common errors made in the filing status section—Many taxpayers do not enter the name of the person who qualifies them as head of household.

The Internal Revenue Service Centers cannot process a "head of household" return unless a name is listed beside the head of household box or on the line for dependents. If the taxpayer files as a head of household because he or she maintains a home for a child who is not a dependent, be certain the child's name is listed at the end of box 4. If the taxpayer qualifies because of a dependent, be certain the dependent's name is listed on the line for dependents.

2. Decedents—If a taxpayer's spouse died during the year and the taxpayer has not remarried, the taxpayer can file a joint return with the deceased spouse. The instructions for Form 1040A contain more information on this situation in the section entitled *What if a taxpayer dies?*.

3. Nonresident aliens—A taxpayer who is a U.S. resident or citizen may file a joint return with a nonresident alien spouse if both agree to be taxed on their worldwide income. Refer these taxpayers to Publication 519, *U.S. Tax Guide for Aliens,* and suggest that they seek the assistance of a professional preparer.

4. Public assistance programs—In this lesson you have studied the importance of "paying over half the cost of keeping up a home" in deciding filing status. Public assistance payments like Aid to Families With Dependent Children (AFDC) are not considered amounts the taxpayer furnishes to keep up a home.

Exercise 5

Assume you are the volunteer in these conversations and determine the taxpayer's filing status.

a. **Taxpayer—**"Can you help me with my return? I'm filing the 1040A."
Volunteer—"OK, let's complete the filing status section. Are you married or single?"
Taxpayer—"I'm divorced."
Volunteer—"Do you have any children?"
Taxpayer—"Yes, I have a boy and a girl."
Volunteer—"Did the children live with you for more than half the year and did you pay over half the cost of keeping up the home you live in?"
Taxpayer—"Yes, I paid for everything."
Volunteer—"From what you have told me your filing status is__________."

b. **Taxpayer—**"Can I file as single?"
Volunteer—"Were you married or single on December 31st?"
Taxpayer—"Still married, but we had separated."
Volunteer—"When did you separate last year?"
Taxpayer—"Around October."
Volunteer—"From what you've said you have to file as______________."

Summary

Taxpayers can claim any of five filing statuses on Form 1040A: single, married filing a joint return, married filing a separate return, head of household, or qualifying widow(er) with dependent child. A special provision allows some married taxpayers to file as head of household. Determining the correct filing status is one of the most important aspects of completing the return.

Answers to Exercises

1. a. Yes. But the taxpayer should use the one that results in the lowest tax.

   b. One.

   c. Yes.

2. a. Yes. They cannot use the single filing status because they were married on the last day of the year.

   b. $13,500.

   c. No, because he was single on Dec. 31.

3. a. Yes.

   b. No, because she did not provide a home for a qualifying relative.

   c. Single. For Mr. Calhoun to file as head of household, his mother would have to be his dependent.

4. a. Married filing separately, unless he and his wife agree to file jointly.

   b. Head of household; married filing separately.
   c. Married filing separately, because she lived with her husband during part of the last six months of 1989.

5. a. Head of household.

   b. Married filing separately, or joint return.

Module II

Lesson 4 Exemptions

Objectives

At the end of this lesson you will be able to:

1. Define "personal exemption."
2. Define "dependent."
3. Identify the tests for determining a qualifying dependent.
4. Use the tests to determine whether an individual qualifies as a dependent.

Contents

Introduction

Personal Exemption

Dependency Exemption

Dependency Tests

Support Test

Income (Gross Income) Test

Relationship Test

Citizen or Resident Test

Married Person (Joint Return) Test

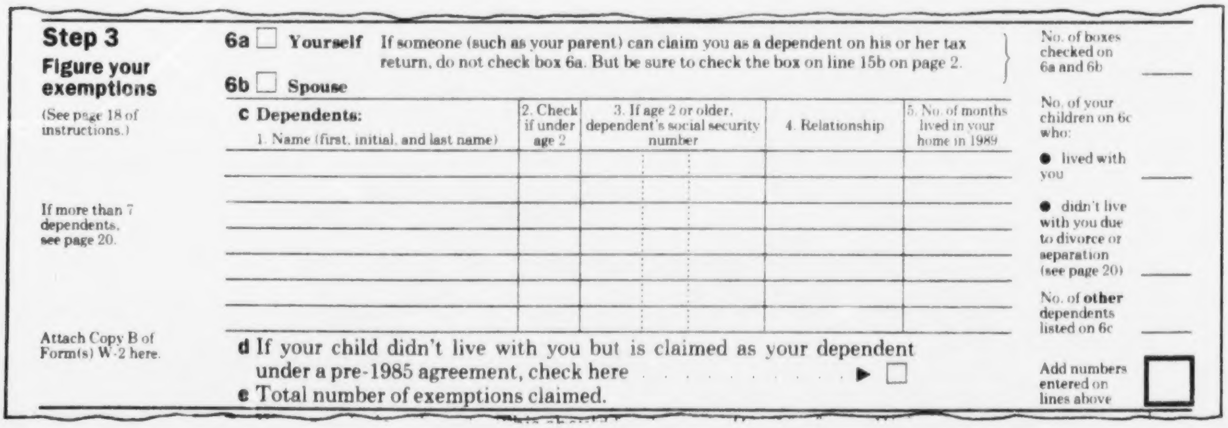
Summary

Answers to Exercises

Introduction

✶ Step 3 of Form 1040A covers exemptions. In 1989, each exemption reduces the amount of income subject to tax by $2,000. There are two kinds of exemptions: personal exemptions, which are claimed on lines 6a and 6b, and dependency exemptions, which are claimed on line 6c.

Exhibit 1



Step 3

Figure your exemptions

(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.

6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c Dependents: 1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:

- ● lived with you ____
- ● didn't live with you due to divorce or separation (see page 20) ____

No. of **other** dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐

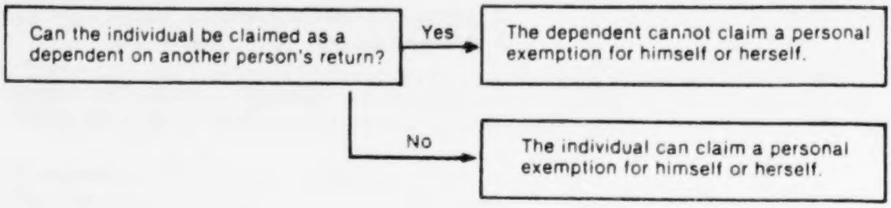
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Personal Exemption

Each taxpayer may claim a personal exemption unless he or she can be claimed as a dependent on another taxpayer's return.

Dependent's personal exemption


Can the individual be claimed as a dependent on another person's return?
Yes
The dependent cannot claim a personal exemption for himself or herself.
No
The individual can claim a personal exemption for himself or herself.

Example

Toni Wiley, age 16, and a full-time student, earned $2,600 during the summer. She can be claimed as a dependent on her parents' return. She will not be able to claim a personal exemption on her own return, whether her parents claim her as a dependent or not.

On a joint return, the taxpayer may claim a personal exemption for his or her spouse. A married taxpayer who files a separate return may claim the exemption for the spouse only if the spouse has ***NO INCOME,*** is not the dependent of another taxpayer, and is not filing a return. If a taxpayer's spouse died during the year, and the taxpayer did not remarry by the end of the year, the taxpayer can claim the personal exemption of the deceased spouse if the exemption could have been claimed on the date of death.

Spouse who remarries during the year. If a taxpayer dies during the tax year and the taxpayer's spouse later remarries during the same year, the spouse may be claimed as an exemption on ***both*** the final separate return of the deceased taxpayer and the separate return of the surviving spouse's new spouse. This will apply only when the surviving spouse has no gross income, is not the dependent of another taxpayer, and is not filing a tax return. However, if the surviving spouse files a joint return with his or her new spouse, the exemption can be claimed only on that return.

Exercise 1

How many personal exemptions can the taxpayer(s) claim?

a. Mr. and Mrs. York filed a joint return in 1988. Mrs. York died in March 1989. Mr. York has not remarried and will file a joint return.

Answer ____________________

b. Kathy Hamilton, age 17 and a full-time student, can be claimed as a dependent on her parents' return. She files Form 1040A.

Answer ____________________

c. Mr. and Mrs. Lee file a joint return.

Answer ____________________

d. Mr. Lee files married filing separately (wife filed separately).

Answer ____________________

Dependency Exemption *

If a taxpayer claims a dependent who is at least 2 years old by December 31, 1989, the dependent's social security number (SSN) must be listed on the return. If the SSN is not listed or is incorrect, the taxpayer may be subject to a penalty.

Dependency Tests

Each taxpayer may claim a dependency exemption for other people only if five tests are met. These are:

1. Support test
2. Income (gross income) test
3. Relationship test
4. Citizen or resident test
5. Married person (joint return) test

Included in the discussion under the *Support Test* are the related topics, *Multiple Support* and *Children of Divorced or Separated Parents.*

In 1989, a taxpayer can claim a dependency exemption of $2,000 for each dependent who lives with the taxpayer and for certain related dependents, whether or not they live with the taxpayer. A dependent is a person, other than the taxpayer or spouse, who entitles the taxpayer to claim the dependency exemption. **All five dependency tests must be met.** If any one test is not met, the taxpayer cannot claim the person as a dependent. (**Exception:** The taxpayer's child who is under age 19 or a full-time student under age 24 does not have to meet the *Income Test,* which is explained later in this lesson.)

Support Test

The support test requires that the taxpayer provide ***more than half*** of the dependent's total support for the entire year (however, see *Multiple Support,* and *Children of Divorced or Separated Parents,* later).

In figuring the total support, the taxpayer must include tax-exempt income, savings, and borrowed amounts used for support. Tax-exempt income includes certain social security benefits, welfare benefits, life insurance proceeds, armed forces family allotments, nontaxable pensions, and tax-exempt interest.

State benefit payments (welfare, food stamps, housing, etc.) based on need are considered support provided by the state. For example, Aid to Families with Dependent Children (AFDC) is support provided by the state, not the parent.

Total support includes food, clothing, shelter (at fair rental value), education, medical and dental care, recreation, and transportation. Capital items, such as furniture, appliances, or autos, should be included in support if the items are solely for the dependent's own use or benefit. Expenses that are not directly related to any one member of a household, such as food, must be divided among members of the household. Examples of items excluded from support are life insurance premiums, some scholarships, and taxes paid from the dependent's own income.

Example

Bill Stone and his wife, Linda, must determine how many exemptions they can claim before they prepare their return. They help support Linda's mother, Alice McDonnell. Mrs. McDonnell, age 72, lives in an apartment. She received $3,000 in social security benefits and $400 in interest. The entire social security benefits and interest are considered in determining support. The Stones provided $4,800 toward Mrs. McDonnell's support, which includes a $400 color TV set they bought for her personal use. The support test is met because the Stones contributed over half of her support.

Exercise 2

Determine if the support test is met in the following situations:

a. Raymond's mother received $2,600 in social security payments and $900 in interest. Raymond paid $2,100 for her food and $800 for her medical bills. His mother paid $2,350 for lodging, $400 for recreation, $250 for clothes, $100 for transportation, $300 for life insurance, and $100 for a TV set.

Amount Raymond contributed toward support ____________

Amount his mother contributed toward support ____________

Who provided more than 50% of support? ____________

Was the support test met? ____________

b. Veronica's son, using his own money, bought a used car for $4,800. He also received a scholarship for one semester's tuition ($1,100). He is a full-time student. Veronica provided the following for him:

Lodging (fair rental value)	$2,800
Education	1,600
Medical care	200
Recreation	250
Life insurance policy	150
Medical insurance	100
Clothing	250

Amount Veronica contributed toward support ____________
Amount her son contributed ____________
Who provided more than 50% of support? ____________
Was the support test met? ____________

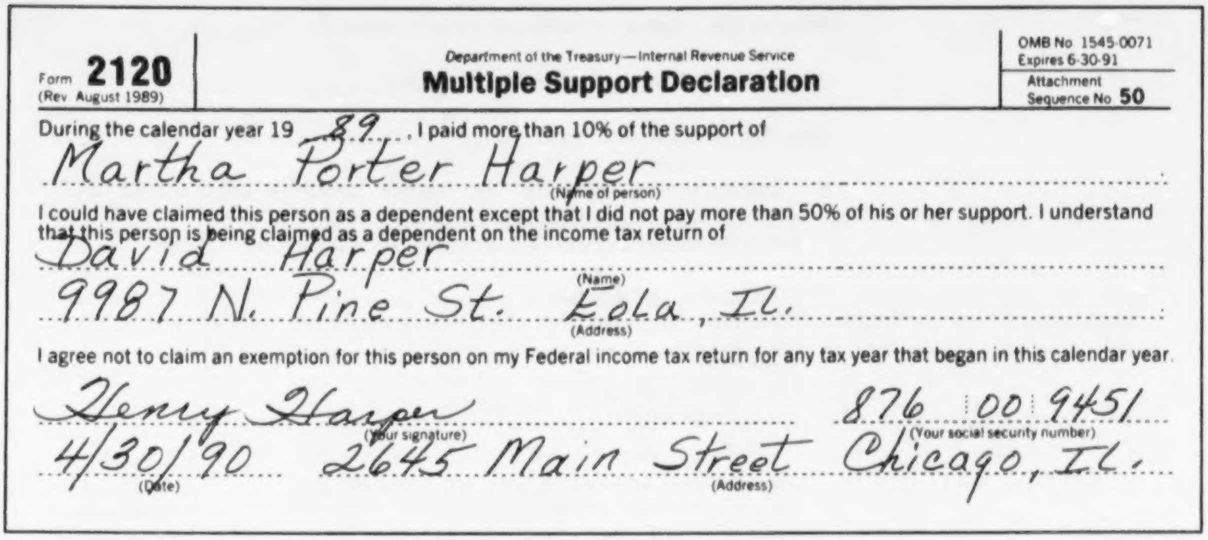
Multiple Support

Sometimes no one person provides more than half an individual's support, but two or more persons together may do so. When this happens, anyone who separately provides over 10% of the dependent's total support and meets the other tests may be able to claim the exemption for the dependent. Only ***one*** person may do this. Each of the others must sign a written statement agreeing not to claim the exemption for that year. Form 2120, *Multiple Support Declaration,* is used for that purpose. The person who claims the exemption attaches the Forms 2120 to the current year's tax return. The taxpayers decide among themselves which one takes the exemption for the year. As a volunteer, you do ***not*** decide.

Example

Henry and David Harper each provide more than 10% of the total support of their mother, Martha Porter Harper (SSN 345–00–1234), but neither provides more than 50%. Together, they do provide more than 50%. Henry and David have decided that David will claim the exemption this year. Exhibit 2 is the completed Form 2120 that David Harper would attach to his return.

Exhibit 2



Form **2120**
(Rev. August 1989)

Department of the Treasury—Internal Revenue Service
Multiple Support Declaration

OMB No 1545-0071
Expires 6-30-91
Attachment
Sequence No **50**

During the calendar year 19 89 , I paid more than 10% of the support of

Martha Porter Harper
(Name of person)

I could have claimed this person as a dependent except that I did not pay more than 50% of his or her support. I understand that this person is being claimed as a dependent on the income tax return of

David Harper
(Name)

9987 N. Pine St. Eola, Il.
(Address)

I agree not to claim an exemption for this person on my Federal income tax return for any tax year that began in this calendar year.

Henry Harper
(Your signature)

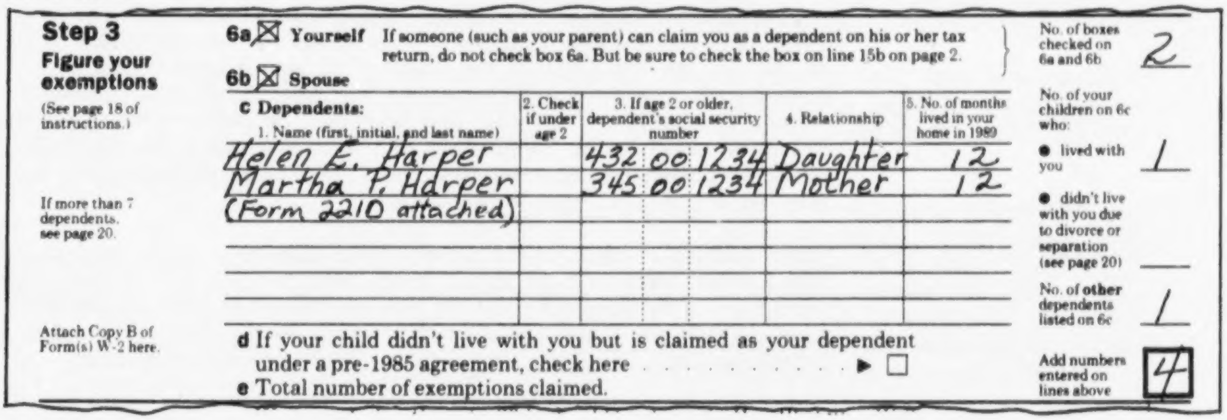
876 00 9451
(Your social security number)

4/30/90
(Date)

2645 Main Street Chicago, Il.
(Address)

David Harper, who is married and filing jointly, has one child, Helen E., age 4 (SSN 432-00-1234). The Exemption section of his return is shown in Exhibit 3.

Exhibit 3



Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.

6b ☒ **Spouse**

No. of boxes checked on 6a and 6b: 2

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Helen E. Harper		432 00 1234	Daughter	12
Martha P. Harper		345 00 1234	Mother	12
(Form 2210 attached)				

If more than 7 dependents, see page 20.

Attach Copy B of Form(s) W-2 here.

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 20): —

No. of other dependents listed on 6c: 1

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed.

Add numbers entered on lines above: 4

Children of Divorced or Separated Parents

The parent who has custody of the child for most of the year (custodial parent) will generally be treated as having provided over half of the child's support if all of the following conditions are met:

1. The child received over half of his or her total support from one or both parents.
2. The parents must be divorced, legally separated, separated under a written separation agreement, or have lived apart at all times during the last six months of the year.
3. The child was in the custody of one or both parents for more than half of the year.

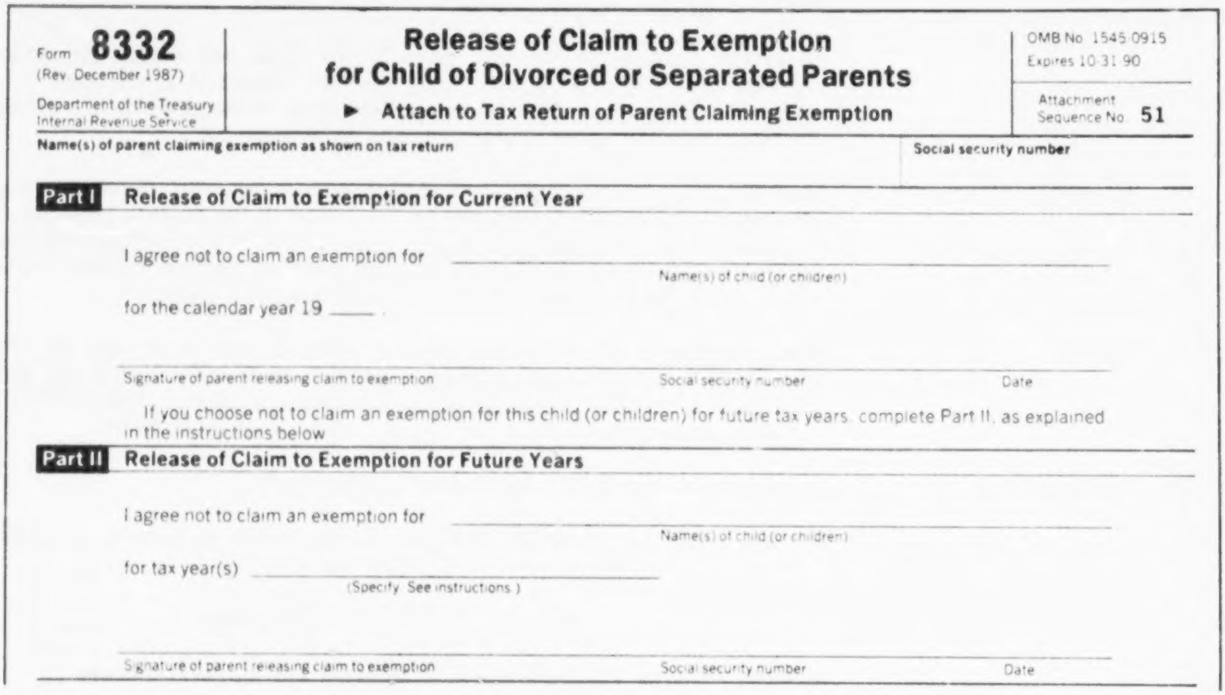
Exceptions. The above provision does not apply in any case where:

a. Over half of the support of the child is treated as having been received from a parent under a multiple support agreement.

b. The custodial parent signed Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents,* or a similar statement, that allows the noncustodial parent to claim the exemption. This declaration must be attached to the return of the noncustodial parent. See Exhibit 4.

c. A qualified pre-1985 agreement provides that the noncustodial parent shall be entitled to the exemption for the child and the noncustodial parent gave at least $600 toward the child's support during the tax year.

Exhibit 4



Form **8332**
(Rev. December 1987)
Department of the Treasury
Internal Revenue Service

Release of Claim to Exemption for Child of Divorced or Separated Parents

▶ **Attach to Tax Return of Parent Claiming Exemption**

OMB No. 1545-0915
Expires 10-31-90
Attachment Sequence No. **51**

Name(s) of parent claiming exemption as shown on tax return | **Social security number**

Part I **Release of Claim to Exemption for Current Year**

I agree not to claim an exemption for ______________________
Name(s) of child (or children)

for the calendar year 19 _____ .

Signature of parent releasing claim to exemption | Social security number | Date

If you choose not to claim an exemption for this child (or children) for future tax years, complete Part II, as explained in the instructions below.

Part II **Release of Claim to Exemption for Future Years**

I agree not to claim an exemption for ______________________
Name(s) of child (or children)

for tax year(s) ______________________
(Specify. See instructions.)

Signature of parent releasing claim to exemption | Social security number | Date

Example

Under the terms of Ellen's 1984 divorce, Ellen's former husband has custody of their two children. The divorce decree specifies that Ellen may claim the dependency exemptions. Ellen provided $1,500 for each child. She may claim both children as dependents (assuming all other tests are met).

Example

Assume that in the preceding example Ellen provided only $500 for the support of each child. She cannot claim the exemptions because she provided less than $600 for each child's support.

Example

Under the terms of Stephen's pre-1985 divorce decree, his former wife has custody of their child. The decree states that Stephen may claim the exemption. He provided $700 towards the child's support. He may claim the exemption.

Exercise 3

Christopher is the son of Sam and June Oliver, who are divorced. Christopher lives with his mother. His father sends $1,600 a year towards his support. The divorce decree does not state who may claim Christopher as a dependent. If all other tests are met, who can claim him?

a. Sam Oliver
b. June Oliver
c. Follow rules for multiple support

Answer ________________

Income (Gross Income) Test

Under this test, a taxpayer cannot claim a dependency exemption for a person whose gross income is the amount of the exemption or more. The exemption amount in 1989 is $2,000. Gross (taxable) income is explained in Lesson 2 (Module II). The income test does not apply to the taxpayer's child * who is under 19 or who is a full-time student under age 24 for some part of each of 5 calendar months of the year. This generally does not include night schools, on-the-job training courses, or correspondence schools. The 5 months need not be consecutive in order to qualify.

Note: For purposes of this test, gross income does not include the income received by a permanently and totally disabled person at a sheltered workshop. The person must be at the workshop because there is medical care available. For more information, see Publication 17.

Example

Mike Warren is 21 years old and attends college full time. During the summer he earned $2,500, which he used for his tuition. If his parents provided more than $2,500 for his support, they could claim him as a dependent on their return, assuming all other tests were met. Because he is a full-time student and is under 24 years old, the income test does not apply.

Example

Wilma Garfield is 63 years old. She lives with her son, John, and his wife. Mrs. Garfield is retired and receives a pension of $5,400. Even if her son and his wife provide more than that amount toward her support, they cannot claim her as a dependent because her gross income is at least $2,000.

Exercise 4

Is the income test met in the following situations?

a. Mark's son, Tom, earned $3,200 last year. Tom then became a full-time student in September. He is 20 years old.

Yes ________ No ________ Does not apply ________

b. Betty Cloud is 73 years old. She received the following income:

Insurance payment for personal injury	$5,750
Interest income (bank accounts)	625
Interest on state revenue bonds	490
Veterans' benefits (on deceased husband's behalf)	610
State lottery winnings	330

Yes ________ No ________ Does not apply________

How much was Betty's total gross income? $___________

Relationship Test

Taxpayers may claim exemptions for persons who lived with them all year as members of the household, except for temporary absences. These persons do not have to be related. Attending school is considered a temporary absence; so are vacations and hospital stays because of illness.

A taxpayer may not claim an exemption for a household member if the relationship between them violates local law.

A dependent related to the taxpayer in one of the following ways also satisfies this test and does not have to live with the taxpayer (or be a member of his or her household):

Child
Stepchild
Mother
Father
Grandparent
Brother
Sister
Grandchild
Stepbrother
Stepsister
Stepparent
Mother-in-law
Father-in-law
Brother-in-law
Sister-in-law
Daughter-in-law
Son-in-law

or if related by blood:
Uncle
Aunt
Niece
Nephew

A legally adopted child is considered the taxpayer's child. The child need live with the taxpayer only since the adoption was final, not all year, to meet this test. If a foster child has lived with the taxpayer all year (except for temporary absences), he or she is treated as the taxpayer's own child if the taxpayer did not receive any payments to care for the foster child.

A taxpayer may take an exemption for his or her child. If a child was born alive during the year and meets the dependency tests, a taxpayer may take the exemption. This is true even if the child lived only for a moment. A stillborn child cannot be claimed as an exemption. Whether a child was born alive depends on state or local law.

A relationship established by marriage (such as mother-in-law) does not end with divorce or the death of one of the spouses. A cousin must live with the taxpayer all year (except for temporary absences) to meet the relationship test.

Exercise 5

Is the relationship test met in the following situations?

a. Matthew's cousin lived with him all year.

Yes________ No________

b. Esther's neighbor's child lived with her all year.

Yes________ No________

c. James Leon supports his wife's Uncle Charlie, who lives in another city. The Leons are filing a joint return.

Yes________ No________

d. Stan's adopted child lived with him for 9 months. He was awarded legal custody in April.

Yes________ No________

e. Stella's sister's child lived in her home for 8 months.

Yes________ No________

Exercise 6

If all other tests are met, which of the following may be claimed as dependents?

a. Martin's cousin lived with him for 6 months, and then moved to Chicago.

Yes________ No________

b. James Leon supports his wife's Uncle Charlie, who lives in another city. James and his wife file separate returns.

Yes________ No________

Citizen or Resident Test

To meet this test, a person must be a U.S. citizen, resident, or national, or a resident of Canada or Mexico, for some part of the calendar year. Children usually are citizens or residents of the country of their parents. Foreign exchange students generally cannot be claimed as dependents. For more information, see Publication 17.

A child born in a foreign country is recognized as a U.S. citizen for tax purposes if either parent is a U.S. citizen.

Example

Bill Perry lives in Germany and was married in 1988. In 1989 the Perrys' son, Ron, was born. Bill's wife is a German citizen. If all other tests are met, Bill can claim his child as a dependent on his return.

Question: What happens when a taxpayer legally adopts a child who is a citizen of another country?

Answer: If the taxpayer lives in the United States, this test is met even if the child does not live with the taxpayer (see list of relatives, earlier). If the taxpayer lived abroad and adopted a child during that time, the child must live with the taxpayer all year (except for temporary absences) for the citizen or resident test to be met.

Example

Richard Fremont was stationed in Japan with the U.S. Armed Forces. During that time, he and his wife adopted a Japanese girl. She must be a member of their household and live with them all year (except for temporary absences) to meet the citizen or resident test.

Exercise 7

Is the citizen or resident test met in these situations?

a. Steven Pine's son, a U.S. citizen, studies abroad all year.

Yes_________ No_________

b. Ann Yates is a Canadian resident.

Yes_________ No_________

c. Pedro Rodríguez is a Mexican resident.

Yes_________ No_________

d. Joe Overton's mother-in-law is a citizen and resident of Luxembourg.

Yes_________ No_________

e. Louise Hemlock's son, an adopted child, was born in England and lived with her all year.

Yes_________ No_________

Married Person (Joint Return) Test

The dependent meets this test if he or she does not file a joint return. There is an exception to this test. The taxpayer may claim an exemption for a married dependent if neither the dependent nor the dependent's spouse is required to file a return but they file jointly only to claim a refund of withheld tax. The dependent cannot claim his or her exemption on the joint return.

Exercise 8

From the facts given, determine if the following individuals may be claimed as dependents. If not, indicate each test that is not met.

a. Bernice Wilson is Bart's mother-in-law and a Canadian citizen. Bart provided 70% of her total support. She has $625 gross income and is a widow. She lives in Toronto. Bart and his wife file jointly. Is Mrs. Wilson their dependent?

Yes_________ No_________

If No, list each test that is not met.

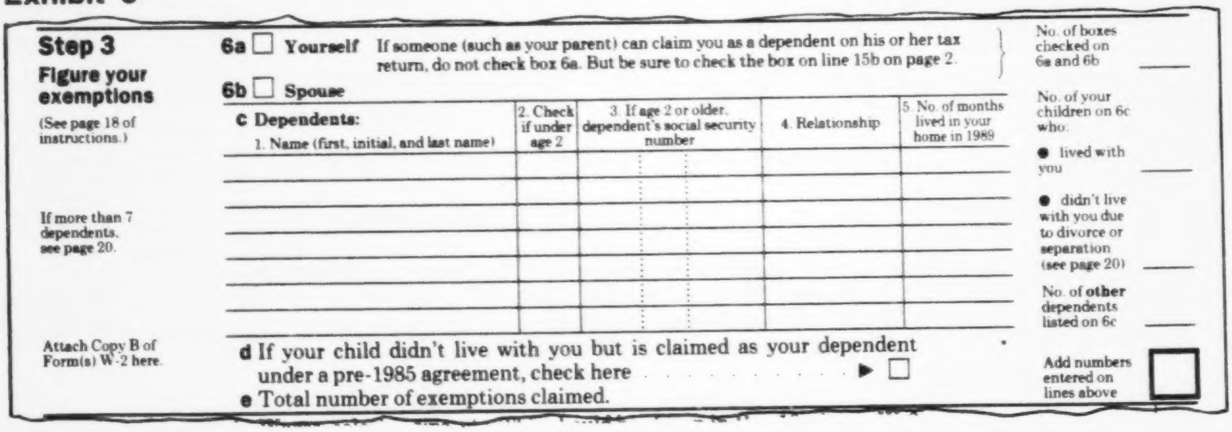
b. Andrew and Regina Elm had Regina's nephew living with them all year, and they provided 60% of his support. The Elms file a joint return. The nephew is single, 22 years old, and a U.S. citizen. He earned $3,200 last year and was a full-time student. Is he the Elms' dependent?
Yes_________ No_________
If No, list each test that is not met.

c. Donald Kapse, a U.S. citizen, provided the total support of his parents who are citizens and residents of India. Can Donald claim dependency exemptions for his parents?
Yes_________ No_________
If No, list each test that is not met.

d. Mitsu Akido, a Japanese citizen, lived with Mr. and Mrs. Jenkins in the United States all of 1989. Mitsu qualifies as a U.S. resident. Mitsu is single and had gross income of $950 last year. Mr. and Mrs. Jenkins provided over half of Mitsu's support. May the Jenkins claim a dependency exemption for Mitsu?
Yes_________ No_________
If No, list each test that is not met.

If Yes, complete the appropriate section of Form 1040A (Exhibit 5).

Exhibit 5



Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.

6b ☐ **Spouse**

No. of boxes checked on 6a and 6b _____

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
● lived with you _____
● didn't live with you due to divorce or separation (see page 20) _____
No. of **other** dependents listed on 6c _____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐

e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Summary

In this lesson you learned about personal and dependency exemptions. To claim a dependent at least 2 years of age, the taxpayer must include the dependent's social security number (SSN) on line 6c or be liable for a penalty. To determine who qualifies as a dependent, the following tests must be met:

1. Support test.
2. Income (gross income) test.
3. Relationship test.

4. Citizen or resident test.
5. Married person (joint return) test.

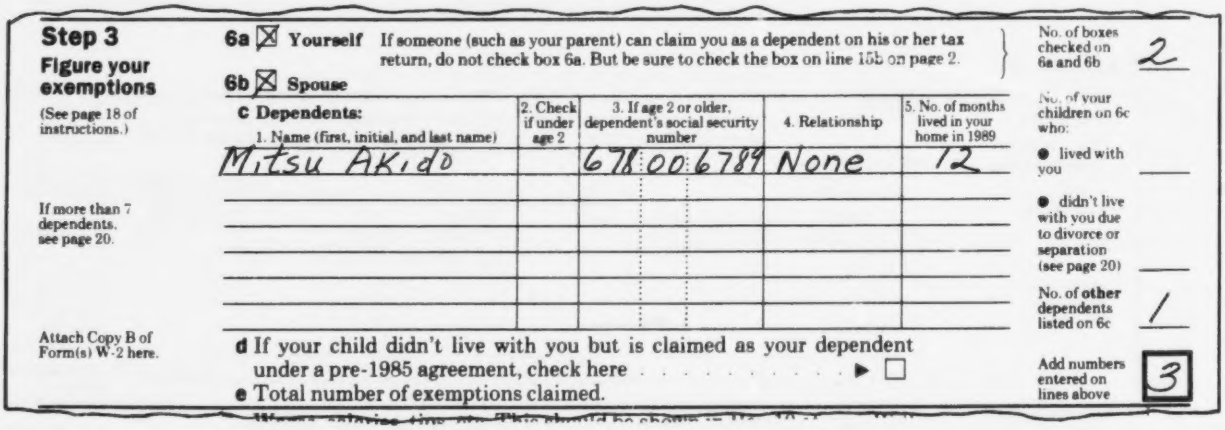
Answers to Exercises

1. a. 2. b. 0. c. 2. d.1.
2. a. Raymond contributed $2,900.
   His mother contributed $3,200.
   Raymond's mother provided more than 50% of her total support.
   No. The support test was not met.
   b. Veronica contributed $5,200.
   Her son contributed $4,800.
   Veronica provided more than 50% of her son's total support.
   Yes. The support test was met.
3. June Oliver. She had custody more than half the year.
4. a. Does apply. He is a full-time student who is under 24.

Note: However, he is a full-time student for only 4 months (not 5).
   b. Yes. The income test is met. Total gross income was $955.

5. All meet the relationship test.
6. a. No. b. No.
7. a. Yes. b. Yes. c. Yes. d. No. e. Yes.
8. a. Yes. Bart's mother-in-law qualifies as their dependent.
   b. No. The nephew cannot be claimed as a dependent because the income test is not met. In order for the income test not to apply to a student, the student must be the taxpayer's child.
   c. No. The parents do not meet the citizen or resident test.
   d. Yes. Mitsu is a dependent. See filled-in Exhibit 5.

Exhibit 5, filled-in



Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.

6b ☒ **Spouse**

No. of boxes checked on 6a and 6b 2

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Mitsu Akido		678 00 6789	None	12

If more than 7 dependents, see page 20.

No. of your children on 6c who:
● lived with you ____
● didn't live with you due to divorce or separation (see page 20) ____
No. of **other** dependents listed on 6c 1

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐

e Total number of exemptions claimed.

Add numbers entered on lines above 3

Module II

Lesson 5

Who Must File—Who Should File

Objectives

At the end of this lesson you will be able to:

1. Determine who must file a tax return.
2. Determine who should file a tax return.

Contents

Introduction

Who Must File

Who Should File

Summary

Answers to Exercise

Introduction

Many people are required to file a return. Other people are not required to file a return but should file one because they will get a refund. Every year many people file needlessly. If the person you are helping does not need to file and will not get a refund by filing, tell that person that no return is needed for 1989.

Who Must File

To find out if the person you are helping must file a return, you need to know the individual's filing status, age, and amount of gross income. You may also need to know:

1. What kind of income the individual had,
2. Whether or not he or she can be claimed as a dependent by another taxpayer (such as a parent), and, if so, whether or not he or she is blind,
3. Whether he or she owes tax on certain items,
4. Whether he or she received advance payment of the earned income credit, and
5. Whether he or she could exclude certain income.

General Rules

You can use the "Who Must File" chart to find out if a person must file a return because of filing status, age, or amount of gross income. The filing requirements for a person who can be claimed as a dependent on another person's return follow the chart. Use the *Other Rules* discussion to find out if the person you are helping must file a return even though gross income is less than the minimum amount shown on the chart for his or her situation.

Using the *Who Must File* Chart

The left side of the *Who Must File* chart groups people by filing status. Each filing status is broken down according to age. The right side shows the minimum amount of gross income an individual in each group must have in order to be required to file. If you have questions about filing status or gross income, refer to lessons 2 and 3 (Module II).

Example

Tom and Judy Williams come to your site. Tom is 68 and Judy is 66. They want to file a joint return. Tom had a taxable pension of $10,000 and Judy received $4,200 in social security benefits. Are they required to file a return?

Tom and Judy's gross income is $10,000. Judy's benefits are nontaxable. The chart shows that the filing requirement for a married couple filing a joint return with both individuals 65 or over is $10,400. Therefore, the Williamses do not have to file a return.

Example

Frank Fayette is single and looking for full-time employment. He worked as a stock boy for a grocery store during the summer and earned $4,750. His employer withheld $364 in federal income tax. Is Frank required to file a return?

The chart shows that for a single person under 65 the filing requirement is $5,100. Since Frank's gross income is only $4,750, he is not required to file. However, Frank ***should*** file a return to receive a refund of the $364 his employer withheld from his wages.

Who Must File

An individual must file if he or she is:	And has gross income of at least:
Single	
Under 65	$5,100
65 or older	5,850
Married Filing a Joint Return	
Both spouses under 65	$9,200
One spouse 65 or older	9,800
Both spouses 65 or older	10,400
Not living with spouse at end of year or on date spouse died (any age)	2,000
✶ Married Filing a Separate Return	
Any age	$2,000
Head of Household	
Under 65	$6,550
65 or older	7,300
Qualifying Widow(er) with dependent child	
Under 65	$7,200
65 or older	7,800

See *Filing Requirements for Dependents,* for the special rules that apply to dependents. Also, see *Other Rules,* later, for situations when a person must file even though gross income is less than the amount shown on this chart.

Filing Requirements for Dependents

Special filing requirements apply to an individual who can be claimed as a dependent on another person's income tax return.

Children and other dependents. If the taxpayer you are helping is single, under 65, and not blind, use the following chart to determine whether the taxpayer must file a tax return.

Taxpayer's taxable interest or dividend income or other unearned income was:	And total of that income plus wages, salaries, and tips was:	Must taxpayer file a return?
$1 or more	$500 or less	NO
$1 or more	more than $500	YES
$ -0-	$3,100 or less	NO
$ -0-	more than $3,100	YES

Example

Linda Bell is 15 and her parents are entitled to claim her as a dependent on their 1989 return. She earned wages of $600 working part time in a grocery store and $50 interest income on her savings account. Linda must file a return for 1989 because she had at least $1 of unearned income and her total income ($650) was more than $500.

Single dependent 65 or older or blind. An individual who is single and 65 or older or blind must file a tax return for 1989 if he or she can be claimed as a dependent on another person's return and he or she had any of the following:

1. Only earned income such as wages, salaries, and tips of more than $3,850; or
2. Only unearned income such as taxable interest and dividends of more than $1,250 ($2,000 if 65 or older and blind); or
3. Gross income that was more than the total of:
   a. His or her earned income (up to $3,100) or $500, whichever is larger, plus
   b. $750 ($1,500 if 65 or older and blind).

Married dependent under 65 and not blind. An individual who is married and under 65 and not blind must file a tax return if he or she can be claimed on another person's return and he or she had any of the following:

1. Only earned income such as wages, salaries, and tips of more than $2,600; or
2. Any unearned income such as taxable interest and dividends and gross income of more than $500; or
3. At least $5 of gross income, and his or her spouse files a separate return and itemizes deductions.

Married dependent 65 or older or blind. An individual who is married and 65 or older or blind must file a tax return if he or she can be claimed as a dependent on another person's return and he or she had any of the following:

1. Only earned income such as wages, salaries, and tips of more than $3,200; or
2. Only unearned income such as taxable interest and dividends of more than $1,100 ($1,700 if 65 or older and blind); or
3. Gross income that was more than the total of:
   a. His or her earned income such as wages, salaries, and tips (up to $2,600) or $500, whichever is larger, plus
   b. $600 ($1,200 if 65 or older and blind); or
4. At least $5 of gross income and his or her spouse files a separate return and itemizes deductions.

Filing Requirements Charts for Dependents

The three charts that follow can be used to determine whether a dependent needs to file a return. Use them when completing the exercise at the end of this lesson.

Chart 1 is for all dependents who are under 65 and not blind.
Chart 2 is for unmarried dependents who are 65 or over or blind.
Chart 3 is for married dependents who are 65 or over or blind.

Use only the chart that fits the dependent's circumstances.

Do not use a chart for the following dependents:

- A married dependent with at least $5 of income whose spouse itemizes deductions on a separate return,
- A dependent with at least $400 of net self-employment income,
- A dependent who owes certain other taxes, or
- A dependent who had income tax withheld.

These dependents either must file, or should file, to receive a refund.

How to use the charts. Answer the question in the block labeled "Start Here." Follow either the line marked "Yes" or the line marked "No" (depending on your answer to the question in the block). Continue answering questions and following lines until you reach a block that does not have a question in it. That block will tell you whether or not the dependent needs to file a return.

Chart 1. Dependents Under 65 and Not Blind

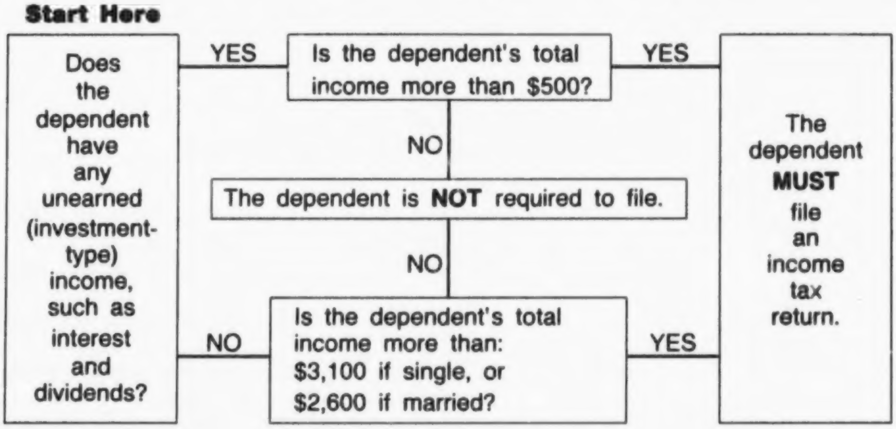
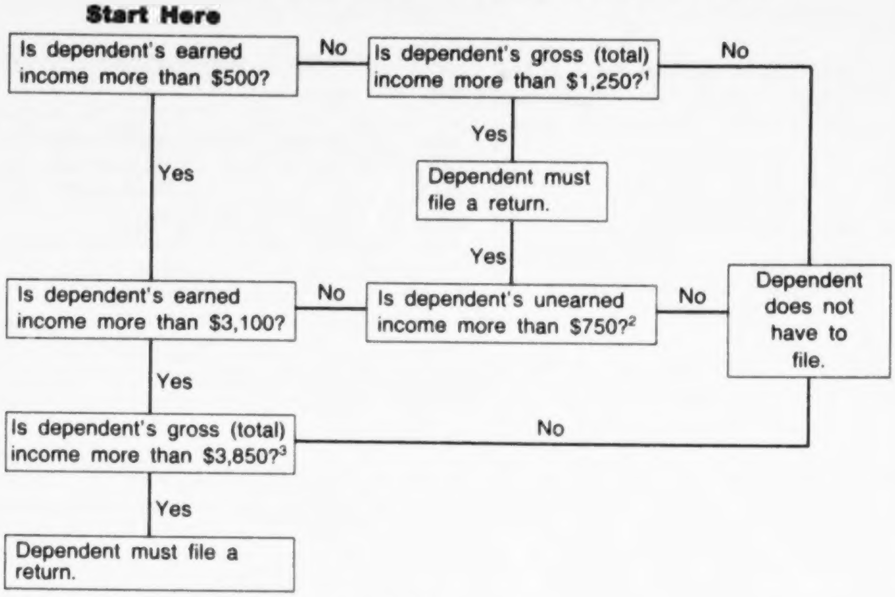
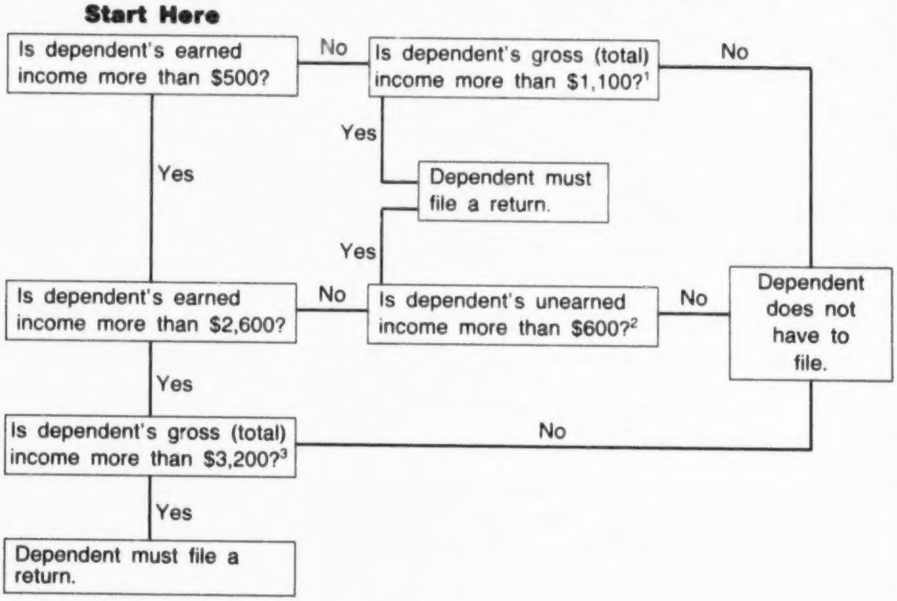

Start Here
Does the dependent have any unearned (investment-type) income, such as interest and dividends?
YES
Is the dependent's total income more than $500?
YES
NO
The dependent is **NOT** required to file.
NO
NO
Is the dependent's total income more than: $3,100 if single, or $2,600 if married?
YES
The dependent **MUST** file an income tax return.

Chart 2. Single Dependents 65 or Over or Blind


Start Here
Is dependent's earned income more than $500?
No
Is dependent's gross (total) income more than $1,250?[1]
No
Yes
Dependent must file a return.
Yes
Yes
Is dependent's earned income more than $3,100?
No
Is dependent's unearned income more than $750?[2]
No
Dependent does not have to file.
Yes
Is dependent's gross (total) income more than $3,850?[3]
No
Yes
Dependent must file a return.

[1] Use $2,000 if the dependent is 65 or over *and* blind.
[2] Use $1,500 if the dependent is 65 or over *and* blind.
[3] Use $4,600 if the dependent is 65 or over *and* blind.

Chart 3. Married Dependents 65 or Over or Blind


Start Here
Is dependent's earned income more than $500?
No
Is dependent's gross (total) income more than $1,100?[1]
No
Yes
Dependent must file a return.
Yes
Yes
Is dependent's earned income more than $2,600?
No
Is dependent's unearned income more than $600?[2]
No
Dependent does not have to file.
Yes
Is dependent's gross (total) income more than $3,200?[3]
No
Yes
Dependent must file a return.

[1] Use $1,700 if the dependent is 65 or over *and* blind.
[2] Use $1,200 if the dependent is 65 or over *and* blind.
[3] Use $3,800 if the dependent is 65 or over *and* blind.

Other Rules

Even when the gross income of the person you help is less than the minimum amount shown on the *Who Must File* chart, that person ***must*** file a return if he or she received advance payment of the ***earned income credit*** from his or her employer. The ***earned income credit*** is discussed later in this module.

A taxpayer must file a return using Form 1040 if any one of the following applies:

1. Owes ***uncollected social security tax*** on tips.
2. Had net earnings from self-employment of $400 or more.
3. Owes tax on an Individual Retirement Arrangement.
4. Owes alternative minimum tax.
5. Owes tax from refiguring an investment credit claimed in an earlier year.
6. Had gross income of at least $2,000 and can exclude income from sources within American Samoa.
7. Earned wages of $100 or more from a qualified church or church-controlled organization that is exempt from employer social security taxes.
8. Has a child under age 14 on January 1, 1990, who only had interest and dividend income of less than $500, and chooses to report income on his or her return.

If box 16 of Form W-2, *Wage and Tax Statement,* shows **uncollected social security tax** on tips, the person you help must add the unpaid employee tax to his or her income tax liability. An individual who received $20 or more in tips in any one month and did not report them to his or her employer must file a Form 1040, attach a Form 4137, *Computation of Social Security Tax on Unreported Tip Income,* and include the tips in income. For an explanation of these terms, see the discussion of tip income in Publication 17.

Income from a trade, business, farming, or profession in which the individual is not an employee is **self-employment income.**

The tax situations in numbers 2 through 7 in the preceding list are beyond the scope of VITA assistance. If you meet taxpayers in these situations, refer them to specific IRS publications or to professional tax preparers.

Note: If a person's tax situation is described either in the *Who Must File* chart or under the *Other Rules,* that person must file a return even if no tax is owed. If a minor child must file a return, but cannot do so, the child's parent or guardian must complete and sign a return for the child.

Who Should File

Some people are not required to file a return, but should file one because they will get a refund. If a person who is not required to file a return had federal income tax withheld from his or her income, the only way that person can get a refund of the tax withheld is to file a return.

The only way a person who is not required to file a return can receive the earned income credit is to file a return. The earned income credit is a refundable credit. This means that a person who is eligible for the credit can get a refund even if he or she had no tax withheld. A return must be filed to claim the earned income credit. The earned income credit is discussed later in this module.

Exercise

Using the appropriate chart and the other rules, show which of the following applies in each situation.

(1) The taxpayer must file a return.
(2) The taxpayer does not have to file a return, but should file to receive a refund.
(3) The taxpayer does not need to file a return.

a. **TAXPAYER:** I'm 57, married, and retired. I received social security and I also did odd jobs. I had about $600 in self-

employment income.
(1) (2) (3)

b. **TAXPAYER:** In 1988 I left school and worked for part of the year. I am single. My salary was $4,525. My employer withheld income tax from my wages. My parents cannot claim me as a dependent.
(1) (2) (3)

c. **TAXPAYER:** I'm 66, single, and retired. I received $1,800 in social security benefit checks and $4,500 from a fully taxable pension. Income tax was withheld from my pension.
(1) (2) (3)

d. **TAXPAYER:** I am 18 years old and single. Last year my total wages were over $5,125—$5,125.10, to be exact.
(1) (2) (3)

e. **TAXPAYER:** I just started working again. Last year my husband and I earned about $9,400. We are both under 65 and eligible to file a joint return.
(1) (2) (3)

f. **TAXPAYER:** I just got married last year and my wife did not work. I had wages of $7,000 and had tax withheld. My parents gave us a gift of $3,000.
(1) (2) (3)

g. **TAXPAYER:** I'm 68, single, blind, and retired. I received a fully taxable pension of $7,000. I did not receive any other income.
(1) (2) (3)

h. **TAXPAYER:** I'm 16 years old. Last year I earned $1,327 from babysitting as an employee (no withholding) and $200 from mowing the grass for our next-door neighbors. I also had $36 in interest from my savings account. My parents can claim me as a dependent.
(1) (2) (3)

i. **TAXPAYER:** I'm single and 33 years old. My wages for 1989 were $4,000. There was no income tax withheld. I received $2,000 unemployment compensation.
(1) (2) (3)

j. **TAXPAYER:** I have a fully taxable annuity of $1,500 from my deceased mother's employer. I qualify to be claimed as a dependent on my sister's tax return.
(1) (2) (3)

Summary

You used the chart and other rules to help you complete the exercises. You now know who must file and who should file a tax return. It is necessary to remember that some taxpayers may need to file a return to get a refund of taxes withheld or a refund of the earned income credit, even though they are not required to file a tax return. For more information on the earned income credit, see lesson 11 in this module or Module III, lesson 9.

Answers to Exercise

a. (1) Must file. (Self-employment income of $400 or more.)
b. (2) Should file. (Refund of withheld taxes.)
c. (2) Should file. (Refund of withheld taxes.)
d. (1) Must file.
e. (1) Must file.
f. (2) Should file. (Refund of withheld taxes. Gift is not included in gross income.)
g. (1) Must file.
h. (1) Must file. (Parents can claim as a dependent, had unearned income, and gross income is more than $500.)
i. (1) Must file. The taxpayer's gross income is at least $5,100.
j. (1) Must file. The taxpayer has unearned income of $500 or more and can be claimed as a dependent on another person's tax return.

Module II

Lesson 6

Income Reported on Form 1040A

Objective

At the end of this lesson you will be able to determine the types of income that may be reported on Form 1040A.

Contents

Introduction

Income Reported on Form 1040A

Summary

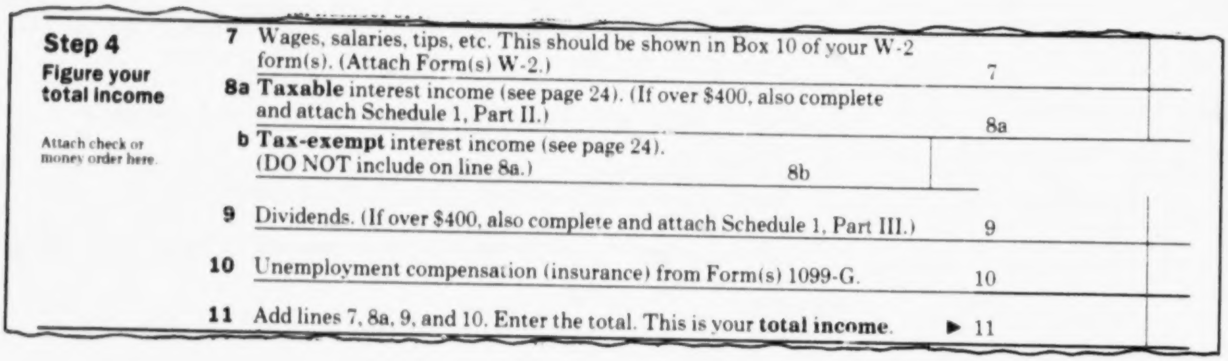
Answers to Exercise

Introduction

In a previous lesson, you learned to distinguish between taxable income and nontaxable income. You will now learn what kinds of income can be reported on Form 1040A.

Income is reported in Step 4 of Form 1040A. See Exhibit 1.

Exhibit 1



Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7

8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a

b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b

9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9

10 Unemployment compensation (insurance) from Form(s) 1099-G. 10

11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Income Reported on Form 1040A

A taxpayer can report the following types of income in Step 4 of Form 1040A:

Wages, Salaries, and Tips

Wages and salaries are compensation received by employees for services performed. They should be shown in box 10 of Form W-2 and are reported on Form 1040A, line 7.

Tips are money and goods received as a gratuity by maids, waiters, porters, etc., for services performed. Tips are reported on Form 1040A, line 7.

If a taxpayer received a scholarship or fellowship, part of it may be taxable even if the taxpayer did not receive a Form W-2 for the amount. Add the taxable part to any other amounts on line 7, and write "SCH" and the amount not reported on Form W-2 in the space to the left of line 7.

Interest

Interest is money earned from savings and checking accounts and savings bonds, etc. It is reported on Form 1040A, line 8a. Tax-exempt interest must also be shown on line 8b, but is not included with taxable interest in the totals column (line 8a).

Dividends

Ordinary dividends are payments that a corporation makes to shareholders from its earnings and profits. Ordinary dividends are reported on Form 1040A, line 9.

Unemployment Compensation

Unemployment compensation includes benefits to unemployed individuals that a state paid from the Federal Unemployment Trust Fund. Unemployment compensation is reported on Form 1040A, line 10.

Example

Laura and John are married and file jointly. Their combined wages are $16,700. They received $382 in interest and $174 in ordinary dividends. Laura received $300 in tips and $1,463 in unemployment compensation. They may file a Form 1040A.

These types of income and how they are reported are more fully explained later in this module and in Module III. If the taxpayer you are helping has other types of income, such as taxable pension and annuity income, alimony, or capital gain distributions, he or she must file Form 1040.

Complete the following exercise to become familiar with the types of income reported on Form 1040A.

Exercise

a. Mr. Summers reports a pension of $4,000 ($3,000 taxable), interest of $500, and dividends of $400. Can he file a Form 1040A?
Yes_________ No_________

b. Indicate in the space provided whether the income listed below is reported on Form 1040A.

	Yes	No
(1) Tips	______	______
(2) Social security benefits	______	______
(3) Alimony	______	______
(4) Wages, salaries	______	______
(5) Interest from savings accounts	______	______
(6) Lottery winnings	______	______
(7) Interest from state bond	______	______
(8) Unemployment compensation	______	______
(9) Ordinary dividends	______	______
(10) Military retirement pay	______	______
(11) Interest from checking accounts	______	______

c. Miss Tate reports that her only income was $900 interest from savings, social security of $1,500, and $5,000 in wages. Can she use Form 1040A?
Yes_________ No_________

d. John Bates had wages of $21,500 and dividend income of $500. Can he file Form 1040A?
Yes_________ No_________

e. Miss Evelyn Walker, age 67, had a salary of $25,000, and received $200 interest from a savings account. Can she file Form 1040A?
Yes_________ No_________

f. Kathy Kemper is divorced. She had wages of $15,000 and received $1,000 alimony and $2,000 child support payments. Can she file Form 1040A?
Yes_________ No_________

Summary

The only types of income that can be reported on Form 1040A are wages, salaries, tips, interest, ordinary dividends, and unemployment compensation. Taxpayers who have other types of income must file Form 1040.

In later lessons you will cover the items subtracted from income on Form 1040A.

Answers to Exercise

a. No. Pensions are not reported on Form 1040A.
b. (1) Yes.
   (2) No.
   (3) No.
   (4) Yes.
   (5) Yes.
   (6) No.
   (7) Yes.
   (8) Yes.
   (9) Yes.
   (10) No.
   (11) Yes.
c. Yes. She may use Form 1040A and list interest on Part II, Schedule 1.
d. Yes. He may use Form 1040A and list dividends on Part III, Schedule 1.
e. Yes.
f. No. She must file Form 1040 because alimony is not reported on Form 1040A.

Lesson 7

Who May File Form 1040A

Objective

At the end of this lesson, you will be able to determine whether a taxpayer should use Form 1040A or must use Form 1040.

Contents

Introduction

Who May File Form 1040A

Probing

Summary

Answers to Exercises

Introduction

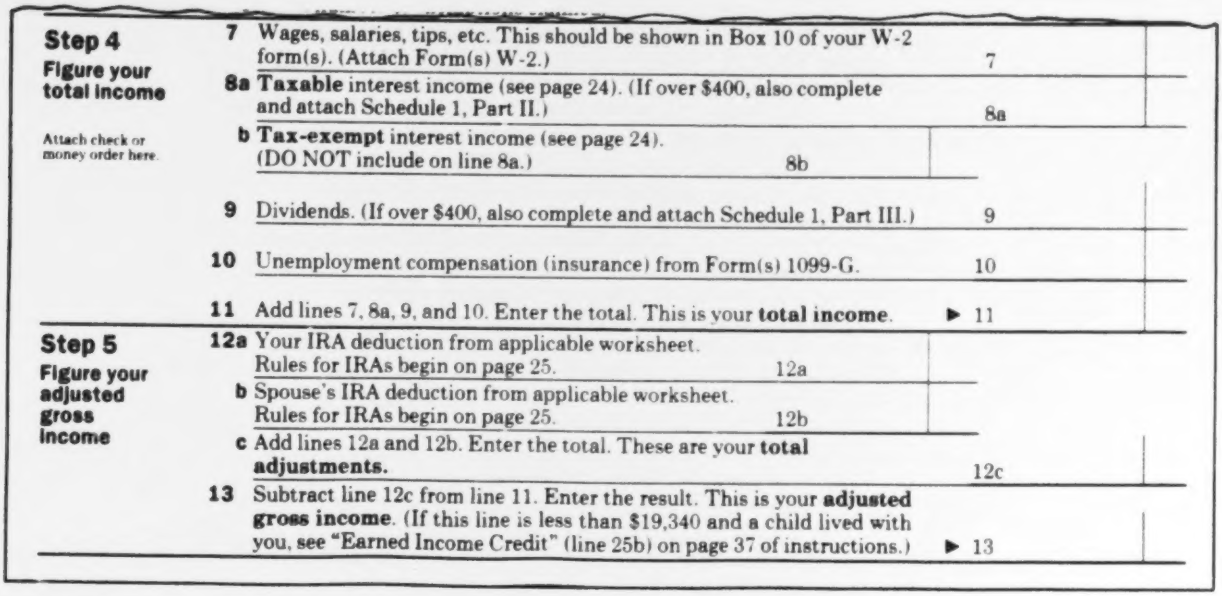
In the previous lesson, you learned what types of income may be reported on Form 1040A. Now you will learn whether an individual may file Form 1040A or must file Form 1040. This determination is based on many factors, including the amount of taxable income, types of income, adjustments to income, deductions, other taxes, and credits.

All items on Form 1040A can be reported on Form 1040. However, many items on Form 1040 cannot be reported on Form 1040A.

If the person you are helping reports only items that are listed on Form 1040A, he or she should file Form 1040A. A taxpayer who received income not listed on Form 1040A must file Form 1040. If the taxpayer can claim credits or deductions that are listed only on Form 1040, he or she should file Form 1040 because claiming these items may result in a lower tax.

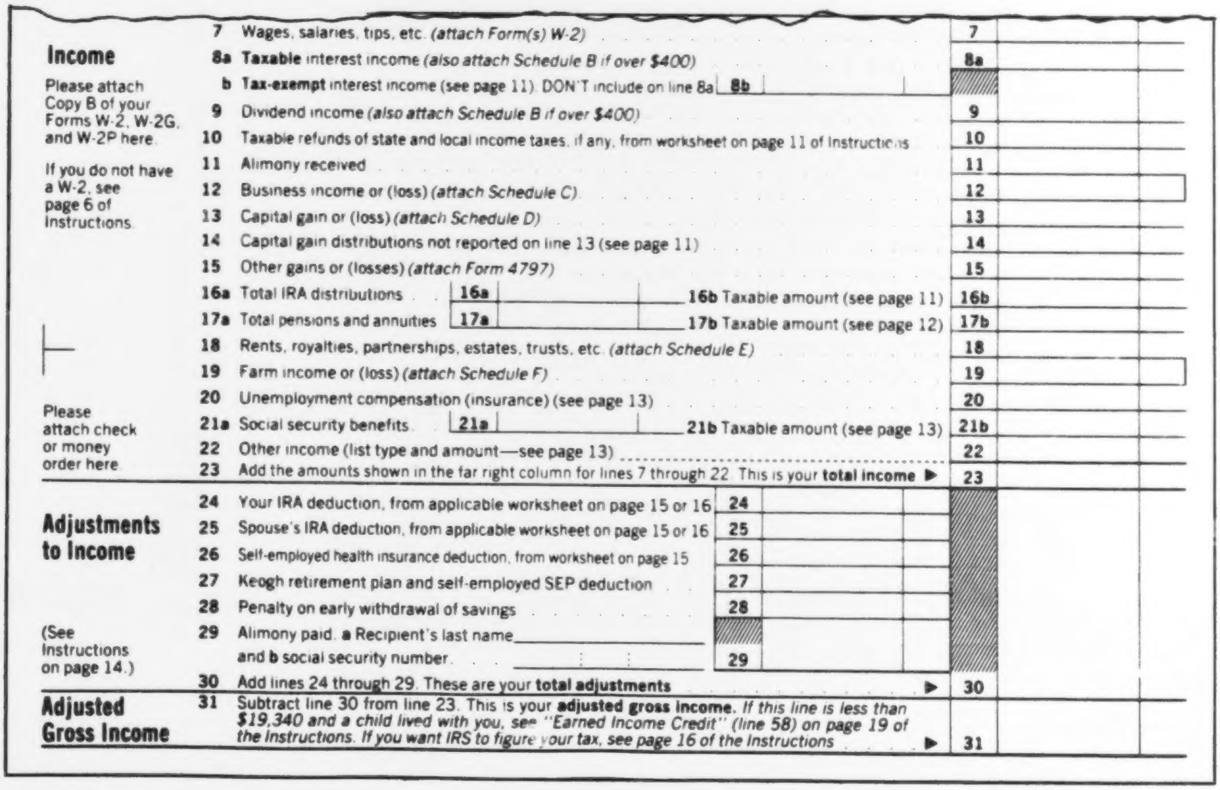
Look at the following exhibits. Note that many items listed on Form 1040 are not on Form 1040A. These illustrations show items from Form 1040A first, and then the corresponding part of Form 1040.

Exhibit 1



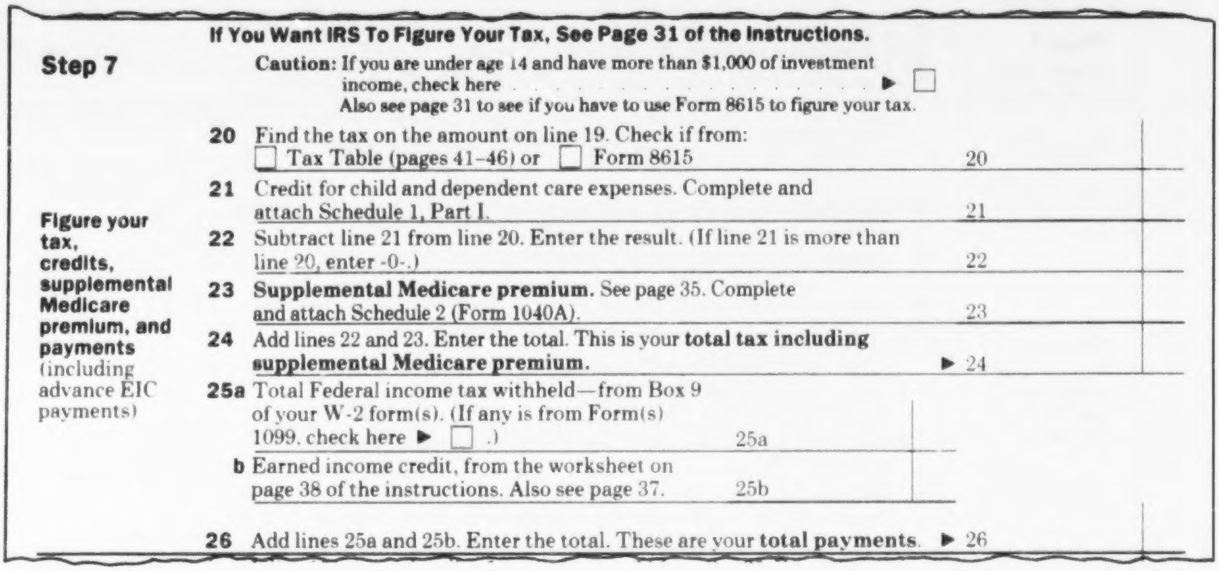
Step 4 **Figure your total income**	7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7
	8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a
Attach check or money order here.	b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b	
	9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9
	10	Unemployment compensation (insurance) from Form(s) 1099-G.	10
	11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11
Step 5 **Figure your adjusted gross income**	12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a	
	b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b	
	c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c
	13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13

Exhibit 2



	7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*		7
Income	8a	**Taxable** interest income *(also attach Schedule B if over $400)*		8a
Please attach Copy B of your Forms W-2, W-2G, and W-2P here.	b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a	8b	▨
	9	Dividend income *(also attach Schedule B if over $400)*		9
	10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions		10
If you do not have a W-2, see page 6 of Instructions.	11	Alimony received		11
	12	Business income or (loss) *(attach Schedule C)*		12
	13	Capital gain or (loss) *(attach Schedule D)*		13
	14	Capital gain distributions not reported on line 13 (see page 11)		14
	15	Other gains or (losses) *(attach Form 4797)*		15
	16a	Total IRA distributions 16a	16b Taxable amount (see page 11)	16b
	17a	Total pensions and annuities 17a	17b Taxable amount (see page 12)	17b
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18
	19	Farm income or (loss) *(attach Schedule F)*		19
	20	Unemployment compensation (insurance) (see page 13)		20
Please attach check or money order here.	21a	Social security benefits 21a	21b Taxable amount (see page 13)	21b
	22	Other income (list type and amount—see page 13)		22
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23
	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	▨
Adjustments to Income	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	▨
	26	Self-employed health insurance deduction, from worksheet on page 15	26	▨
	27	Keogh retirement plan and self-employed SEP deduction	27	▨
	28	Penalty on early withdrawal of savings	28	▨
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name ______ and **b** social security number ______	29	▨
	30	Add lines 24 through 29. These are your **total adjustments** ▶		30
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶		31

Exhibit 3



If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

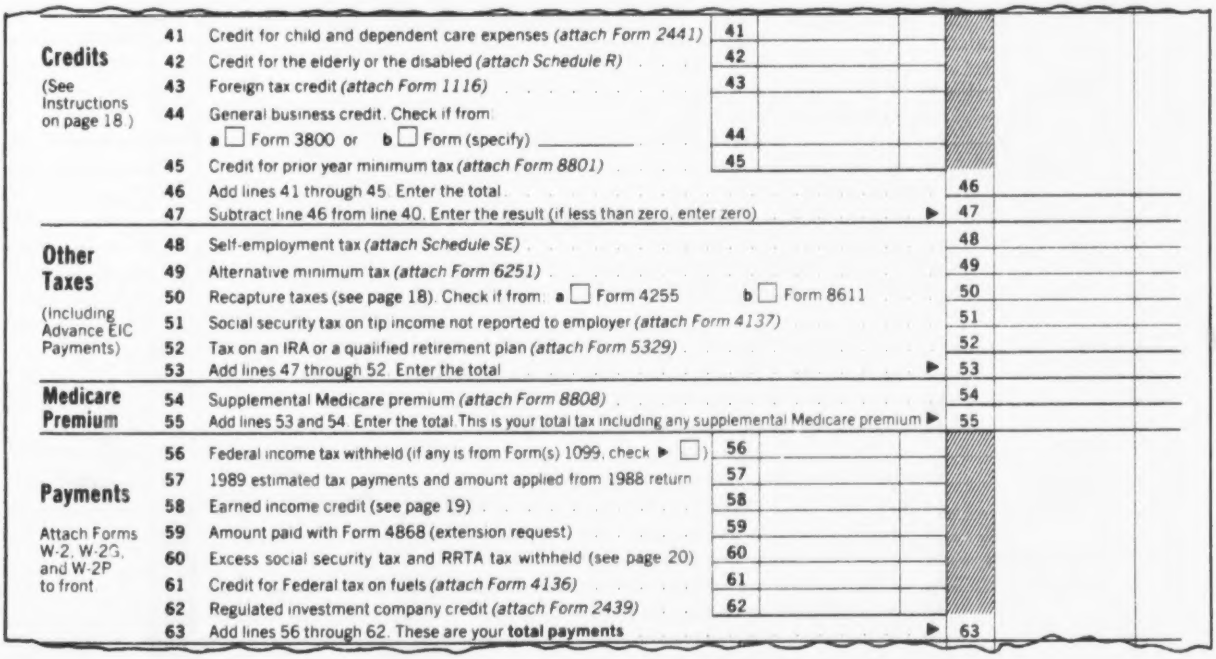
Step 7

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

20	Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615		20
21	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.		21
22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)		22
23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).		23
24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.**		▶ 24
25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .)	25a	
b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37.	25b	
26	Add lines 25a and 25b. Enter the total. These are your **total payments**.		▶ 26

Exhibit 4



Credits (See Instructions on page 18.)	**41**	Credit for child and dependent care expenses *(attach Form 2441)*	41	
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42	
	43	Foreign tax credit *(attach Form 1116)*	43	
	44	General business credit. Check if from: **a** ☐ Form 3800 or **b** ☐ Form (specify) ________	44	
	45	Credit for prior year minimum tax *(attach Form 8801)*	45	
	46	Add lines 41 through 45. Enter the total		46
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶		47
Other Taxes (Including Advance EIC Payments)	**48**	Self-employment tax *(attach Schedule SE)*		48
	49	Alternative minimum tax *(attach Form 6251)*		49
	50	Recapture taxes (see page 18). Check if from: **a** ☐ Form 4255 **b** ☐ Form 8611		50
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*		51
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*		52
	53	Add lines 47 through 52. Enter the total ▶		53
Medicare Premium	**54**	Supplemental Medicare premium *(attach Form 8808)*		54
	55	Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶		55
Payments Attach Forms W-2, W-2G, and W-2P to front	**56**	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56	
	57	1989 estimated tax payments and amount applied from 1988 return	57	
	58	Earned income credit (see page 19)	58	
	59	Amount paid with Form 4868 (extension request)	59	
	60	Excess social security tax and RRTA tax withheld (see page 20)	60	
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61	
	62	Regulated investment company credit *(attach Form 2439)*	62	
	63	Add lines 56 through 62. These are your **total payments** ▶		63

Who May File Form 1040A

Generally, Form 1040A may be filed by an individual who:

1. Has less than $50,000 of taxable income,
2. Has only the following types of income: wages, salaries, tips, taxable scholarships or fellowships, interest, ordinary dividends, and unemployment compensation,
3. Has no adjustments to income other than the deduction for certain contributions to an IRA,
4. Does not itemize deductions,
5. Owes no taxes other than the regular income tax or advance earned income credit payment, and
6. Claims no credits other than the credit for child and dependent care expenses or the earned income credit.

Other considerations also limit who may file Form 1040A. For information about who must file Form 1040, look ahead to Module III, Lesson 1, or see Publication 17.

Example

Larry Adams' income was wages of $16,350, interest of $440, and dividends of $690. He does not itemize deductions or claim any credits or adjustments. He may file Form 1040A. If he files Form 1040A, he must report his interest and dividend income on Schedule 1.

Probing

As a volunteer you will have to ask questions like the following ones to determine each individual's tax situation. The answers you get will help you determine whether the taxpayer can file Form 1040A.

1. What income did you receive? Find out the exact amounts and types of income such as: $14,000 wages; $60 interest; $2,350 unemployment compensation; $1,800 social security; and $75 lottery winnings.
2. Did you pay alimony to a former spouse? Did you receive alimony from a former spouse?
3. Did you have an interest penalty for early withdrawal from a savings certificate?
4. Are you itemizing deductions? It may be to the taxpayer's advantage to itemize if total deductions exceed the taxpayer's standard deduction. Generally, this is $5,200 on a joint return or on the return of a qualifying widow(er); $4,550 when the filing status is head of household; $3,100 when the filing status is single; or $2,600 when a married taxpayer files a separate return. Different standard deduction amounts apply to persons who can be claimed on another's return and to taxpayers who are age 65 or over or blind. See Lesson 9 in this module.
5. Can you claim the credit for the elderly?
6. Did you owe other tax, such as self-employment tax or the tax on tips?
7. Did you make estimated tax payments?

The answers to these questions will help you determine which form the individual should file.

Exercise 1

Carl George is single and earned $5,600 in wages. Carl received a taxable scholarship of $3,200. He also received $35 in interest, $50 in dividends, and $1,600 in unemployment compensation. He does not itemize deductions, nor does he claim any adjustments to income or any credits. Which form should Carl file?

Answer

Exercise 2

Carol Williams is a head of household, and she earned wages of $16,350. She had interest income of $75. She also contributed $650 to an IRA and wants to itemize deductions. Which form should Carol file?

Answer

Exercise 3

Wilma Daniels has income from lottery winnings, interest, and dividends and wants to itemize the following deductions: medical expenses, taxes, and interest. Which form should Wilma file?

Answer

Exercise 4

Vicki Carlson is a qualifying widow with dependent child. She had wages of $14,850, interest of $15, and unemployment compensation of $625. She has an 8-year-old dependent son for whom she pays babysitting fees of $760 while she works. She does not itemize deductions. Which form should Vicki file?

Answer

Exercise 5

George and Joanne have income from the following sources. They file jointly.

George's salary	$18,250
Joanne's salary	16,755
Interest income (joint accounts)	884

They have no other expenses, deductions, credits, or adjustments to income. Which form should they file?

Answer

Summary

You have now completed an overview of Form 1040A, which is simpler than Form 1040. In Module III, you will study the situations in which Form 1040 must be used.

Answers to Exercises

1. Carl should file Form 1040A.
2. Carol should file Form 1040 to itemize.
3. Wilma should file Form 1040 to report the lottery winnings and to itemize.
4. Vicki should file Form 1040A.
5. George and Joanne should file Form 1040A.

Lesson 8

Income Entries on Form 1040A

Objective

At the end of this lesson you will be able to complete the income section of Form 1040A.

Contents

Introduction

Wages, Salaries, Tips

Interest

Dividends

Unemployment Compensation

Total Income

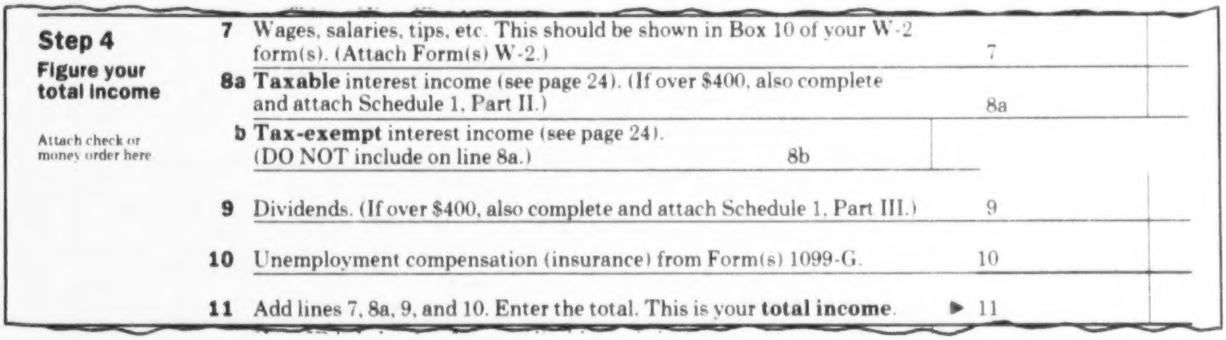
Summary

Answers to Exercises

Introduction

In a previous lesson you learned what types of income can be reported on Form 1040A. This lesson gives you practice in reporting those types of income in Step 4 of Form 1040A, which is illustrated as Exhibit 1.

Exhibit 1



Step 4 **Figure your total income**	7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	
	8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
Attach check or money order here	**b**	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
	9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
	10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
	11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	

Wages, Salaries, Tips

Wages and other compensation (including some scholarships and fellowships) are shown on Form W-2. Tips that are reported to employers are included with wages on Form W-2.

On line 7, Form 1040A, enter the amount from box 10, Form W-2. If the taxpayer has more than one Form W-2, add the amounts on all Forms W-2 and enter the total on line 7, Form 1040A.

If the taxpayer received less than $20 in tips during a month while working for one employer, the taxpayer was not required to report any tips that month to the employer. However, these unreported tips must be included in income.

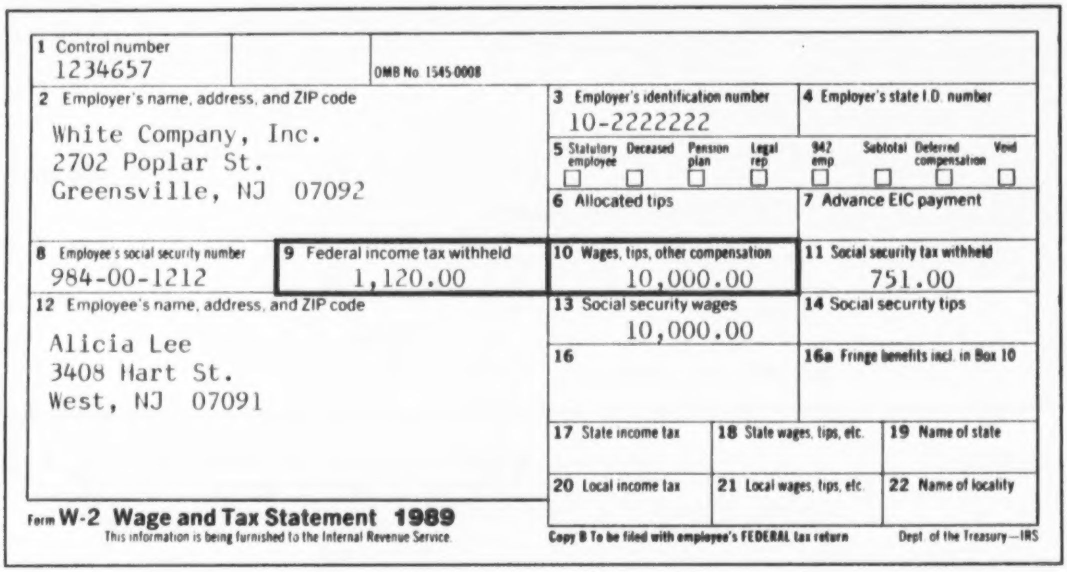
Add the unreported tips to the amount from box 10 of all Forms W-2 and enter the total on line 7, Form 1040A.

Note: If the taxpayer received tips of $20 or more in any month and did not report all tips to his or her employer, the taxpayer must file Form 1040 because these tips are subject to social security tax.

Exercise 1

Alicia Lee, who is single, shows you her Forms W-2 (Exhibits 2 and 3). Use them to complete lines 7 through 11 of her Form 1040A (Exhibit 4). This was her only income.

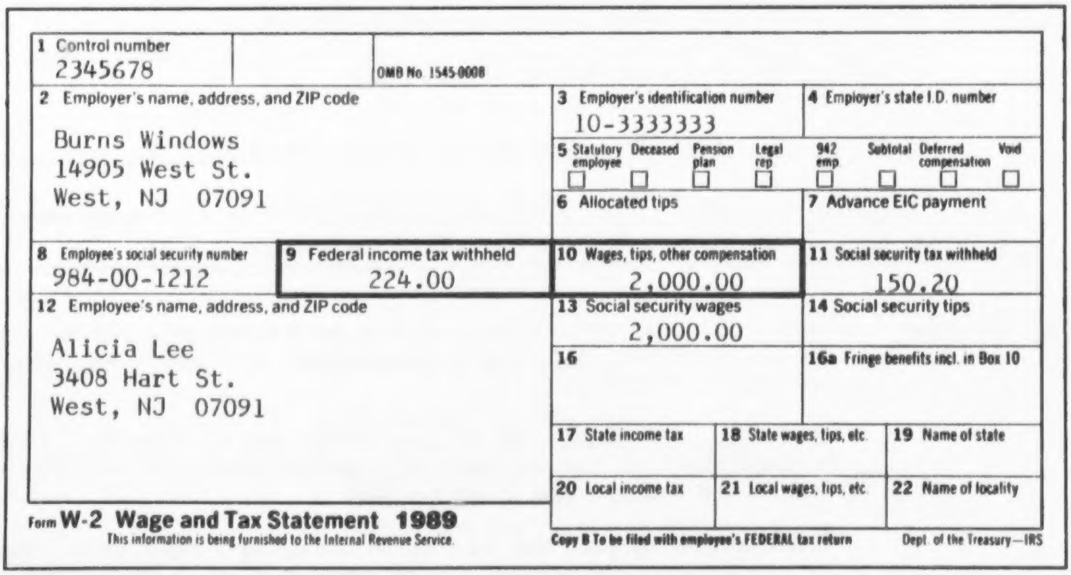
Exhibit 2



1 Control number 1234657		OMB No. 1545-0008		
2 Employer's name, address, and ZIP code White Company, Inc. 2702 Poplar St. Greensville, NJ 07092		3 Employer's identification number 10-2222222	4 Employer's state I.D. number	
		5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐	942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐	
		6 Allocated tips	7 Advance EIC payment	
8 Employee's social security number 984-00-1212	9 Federal income tax withheld 1,120.00	10 Wages, tips, other compensation 10,000.00	11 Social security tax withheld 751.00	
12 Employee's name, address, and ZIP code Alicia Lee 3408 Hart St. West, NJ 07091		13 Social security wages 10,000.00	14 Social security tips	
		16	16a Fringe benefits incl. in Box 10	
		17 State income tax	18 State wages, tips, etc.	19 Name of state
		20 Local income tax	21 Local wages, tips, etc.	22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service.
Copy B To be filed with employee's FEDERAL tax return
Dept. of the Treasury—IRS

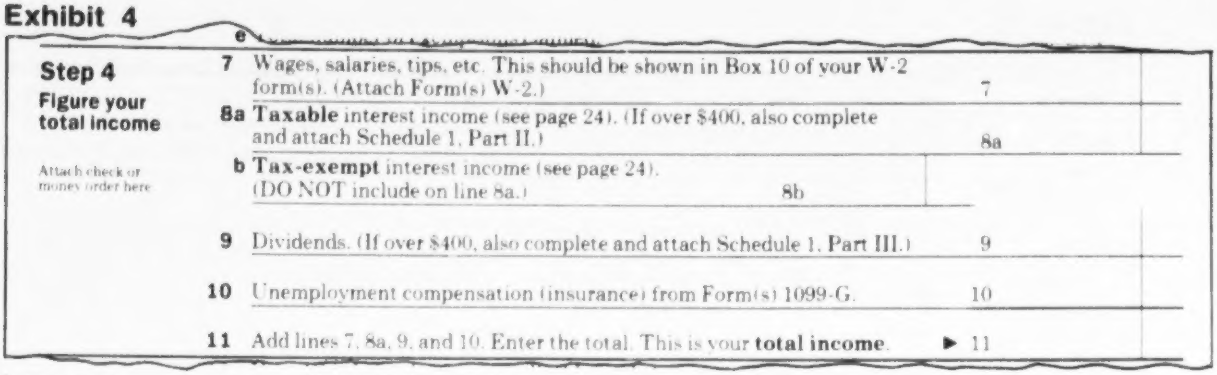
Exhibit 3



1 Control number 2345678		OMB No. 1545-0008		
2 Employer's name, address, and ZIP code Burns Windows 14905 West St. West, NJ 07091		3 Employer's identification number 10-3333333	4 Employer's state I.D. number	
		5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐	942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐	
		6 Allocated tips	7 Advance EIC payment	
8 Employee's social security number 984-00-1212	9 Federal income tax withheld 224.00	10 Wages, tips, other compensation 2,000.00	11 Social security tax withheld 150.20	
12 Employee's name, address, and ZIP code Alicia Lee 3408 Hart St. West, NJ 07091		13 Social security wages 2,000.00	14 Social security tips	
		16	16a Fringe benefits incl. in Box 10	
		17 State income tax	18 State wages, tips, etc.	19 Name of state
		20 Local income tax	21 Local wages, tips, etc.	22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service.
Copy B To be filed with employee's FEDERAL tax return
Dept. of the Treasury—IRS

Exhibit 4



Step 4
Figure your total income

Attach check or money order here

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b	
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶	11

Interest

Interest income is usually shown on a statement from the payer. If the taxpayer received $10 or more from a payer (other than an individual), that payer should have sent the taxpayer a Form 1099–INT.

Note: The taxpayer must file Form 1040 if he or she received interest as a nominee for someone else, reports OID (original issue discount) interest in an amount that is less than what is shown on Form 1099–OID, or received or paid accrued interest on securities transferred between payment dates.

If the taxpayer has more than one Form 1099–INT, add the amounts on all Forms 1099–INT and enter the total on line 8a, Form 1040A.

If the total interest on line 8a is more than $400, use Part II, Schedule 1, Form 1040A, to list each payer's name and the amount from each Form 1099–INT.

Tax-exempt interest. If the taxpayer received any tax-exempt interest, the total of all tax-exempt interest must be shown on line 8b. Do not add tax-exempt interest with taxable interest on line 8a.

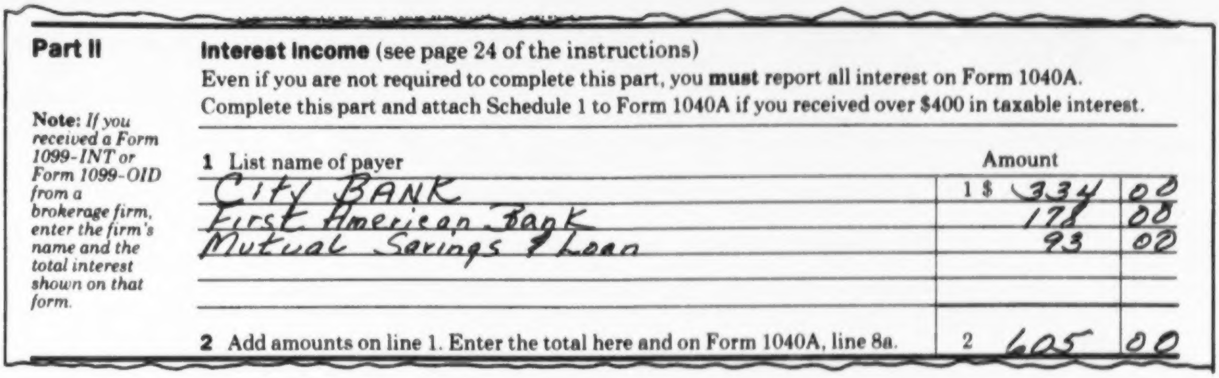
Example

Burt and Elena Page are married and file a joint return. They had the following interest income.

City Bank—$334
First American Bank—$178
Mutual Savings and Loan—$93

Part II, Schedule 1, of the Pages' Form 1040A is shown in Exhibit 5.

Exhibit 5



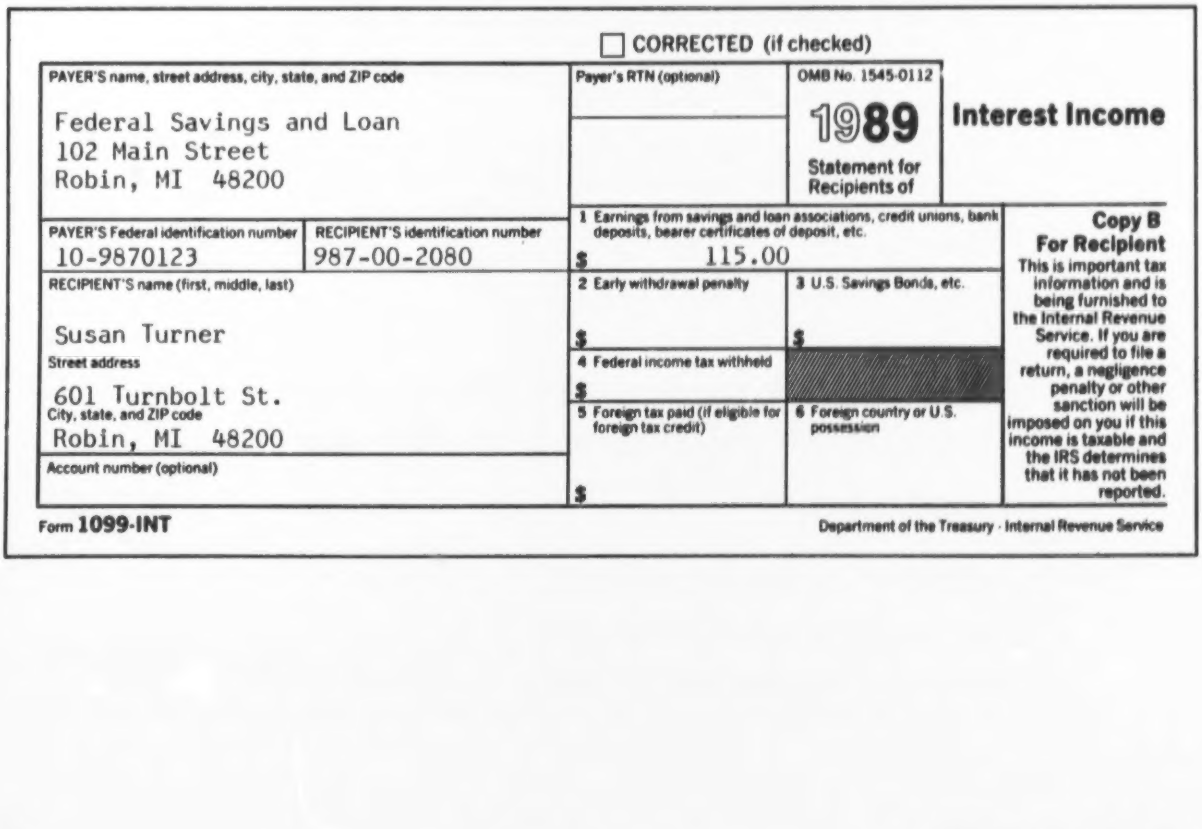
Part II **Interest income** (see page 24 of the instructions)
Even if you are not required to complete this part, you **must** report all interest on Form 1040A.
Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in taxable interest.

Note: *If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, enter the firm's name and the total interest shown on that form.*

1 List name of payer	Amount	
City BANK	1 $ 334	00
First American Bank	178	00
Mutual Savings & Loan	93	00
2 Add amounts on line 1. Enter the total here and on Form 1040A, line 8a.	2 605	00

Exercise 2 Susan Turner shows you the following Forms 1099–INT (Exhibits 6 and 7). Use them to complete Part II, Schedule 1, of her Form 1040A (Exhibit 8).

Exhibit 6



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
Federal Savings and Loan
102 Main Street
Robin, MI 48200

Payer's RTN (optional)

OMB No. 1545-0112
1989
Statement for Recipients of

Interest Income

PAYER'S Federal identification number: 10-9870123
RECIPIENT'S identification number: 987-00-2080

1 Earnings from savings and loan associations, credit unions, bank deposits, bearer certificates of deposit, etc.: $ 115.00

RECIPIENT'S name (first, middle, last)
Susan Turner
Street address
601 Turnbolt St.
City, state, and ZIP code
Robin, MI 48200

Account number (optional)

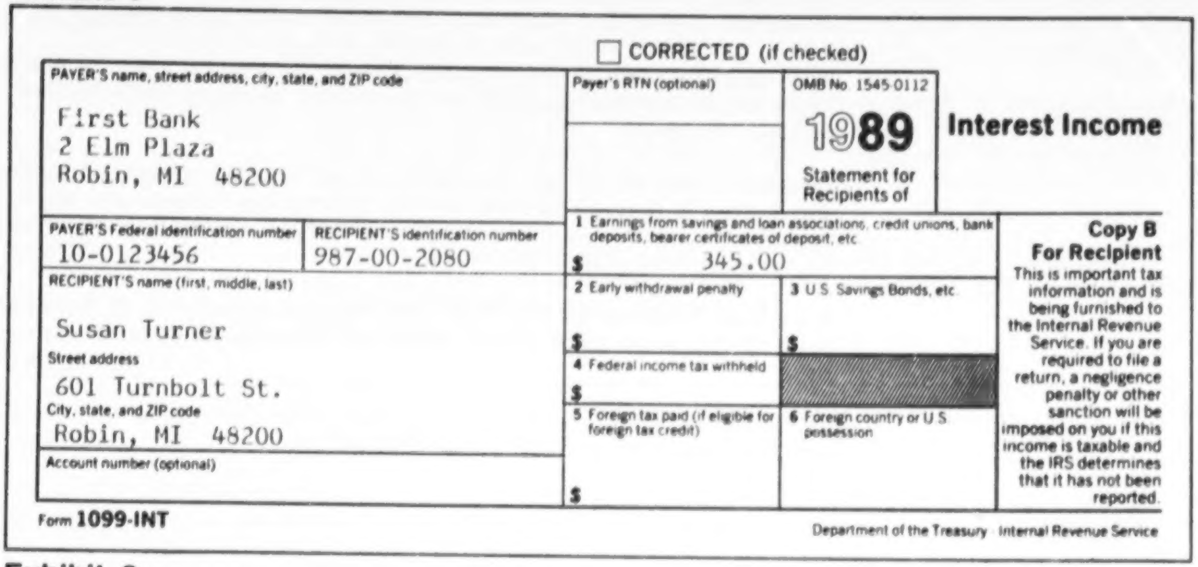
2 Early withdrawal penalty: $
3 U.S. Savings Bonds, etc.: $
4 Federal income tax withheld: $
5 Foreign tax paid (if eligible for foreign tax credit): $
6 Foreign country or U.S. possession

Copy B
For Recipient
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT**

Department of the Treasury · Internal Revenue Service

Exhibit 7



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
First Bank
2 Elm Plaza
Robin, MI 48200

Payer's RTN (optional)

OMB No. 1545-0112

1989

Statement for Recipients of

Interest Income

PAYER'S Federal identification number: 10-0123456

RECIPIENT'S identification number: 987-00-2080

RECIPIENT'S name (first, middle, last)
Susan Turner

Street address
601 Turnbolt St.

City, state, and ZIP code
Robin, MI 48200

Account number (optional)

1 Earnings from savings and loan associations, credit unions, bank deposits, bearer certificates of deposit, etc.: $ 345.00

2 Early withdrawal penalty: $

3 U.S. Savings Bonds, etc.: $

4 Federal income tax withheld: $

5 Foreign tax paid (if eligible for foreign tax credit): $

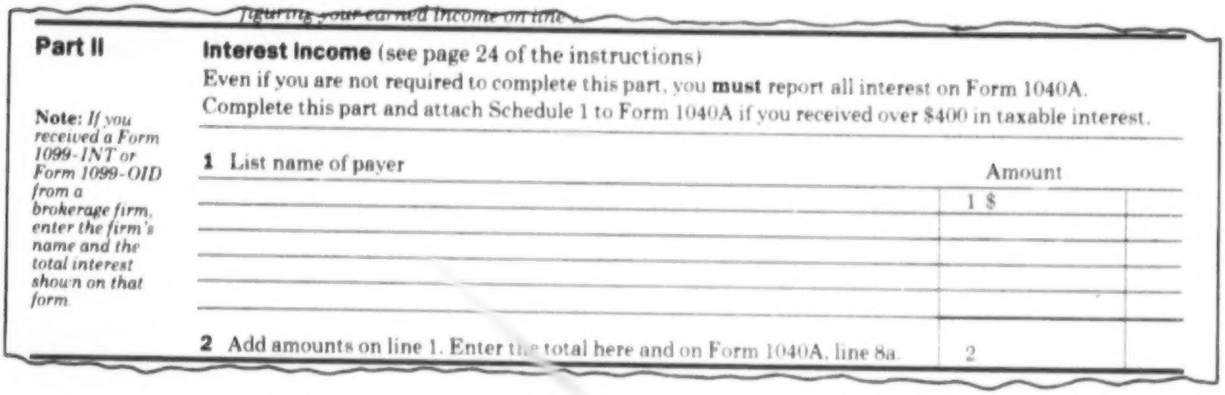
6 Foreign country or U.S. possession

Copy B
For Recipient
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT**

Department of the Treasury · Internal Revenue Service

Exhibit 8



figuring your earned income on line

Part II

Interest Income (see page 24 of the instructions)
Even if you are not required to complete this part, you **must** report all interest on Form 1040A.
Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in taxable interest.

Note: *If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, enter the firm's name and the total interest shown on that form.*

1 List name of payer		Amount
	1 $	
2 Add amounts on line 1. Enter the total here and on Form 1040A, line 8a.	2	

Dividends

Dividend income is usually shown on a statement from the payer. If the taxpayer received $10 or more of dividend income from a payer, that payer should have sent the taxpayer a Form 1099–DIV.

* Box 1a of Form 1099–DIV shows the total (gross) dividends received during the year. This total is the sum of the amounts shown in boxes 1b, 1c, 1d, and 1e. Box 1b shows the total ***ordinary*** dividends that the taxpayer received during the year. If the taxpayer's Form 1099–DIV shows equal amounts in boxes 1a and 1b and no other amounts in boxes 1c, 1d, and 1e, then he or she can file Form 1040A. If an amount appears in either box 1c, 1d, or 1e, the taxpayer must file Form 1040. These boxes are discussed in Lesson 3 of Module III. Also, if the taxpayer received dividends as a nominee for someone else, he or she must file Form 1040. If the taxpayer's dividend income is

complicated or confusing, you should refer the taxpayer to Publication 550, *Investment Income and Expenses,* or to a professional preparer.

If the taxpayer received only ordinary dividends in box 1b, enter on line 9, Form 1040A, the total dividends from box 1a of all Forms 1099–DIV the taxpayer shows you.

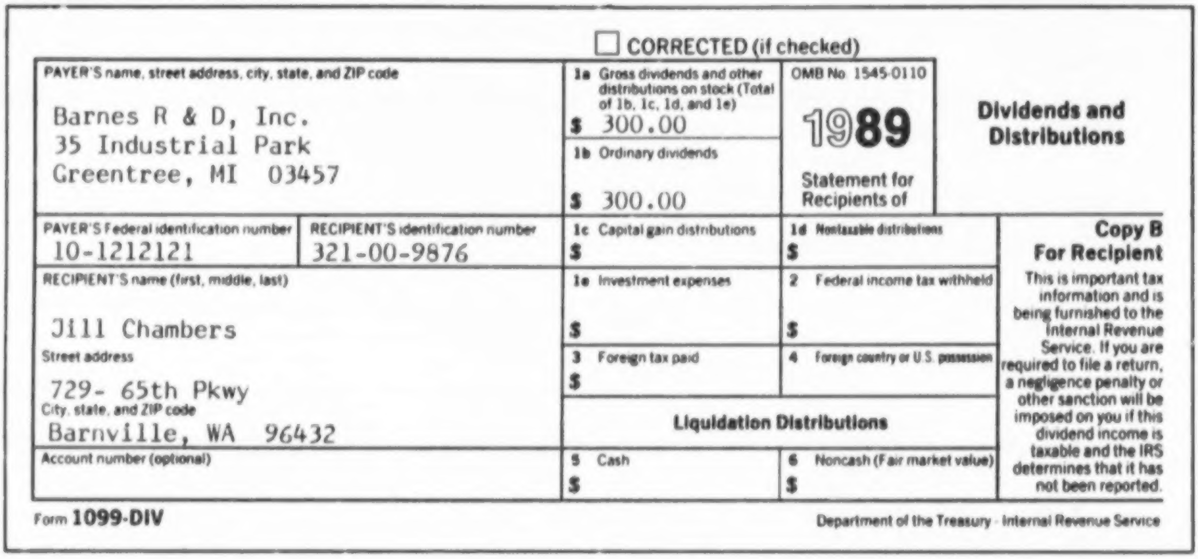
Generally, if the person you are helping is married filing a separate return, and if there is dividend income from investments the taxpayer and his or her spouse own together, enter on line 9 only half the amount you would enter if the taxpayer were filing a joint return.

If the total dividends on line 9 are more than $400, use Part III, Schedule 1, Form 1040A, to list each payer's name and the amounts received from each payer.

Exercise 3

Jill Chambers shows you the following Form 1099–DIV (Exhibit 9). Use it to complete line 9 of her Form 1040A (Exhibit 10).

Exhibit 9

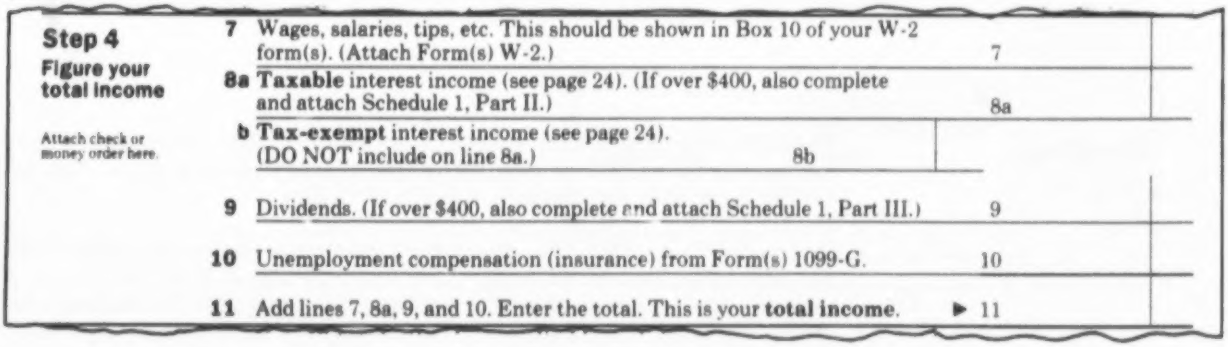


☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Barnes R & D, Inc. 35 Industrial Park Greentree, MI 03457		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 300.00 1b Ordinary dividends $ 300.00	OMB No. 1545-0110 1989 Statement for Recipients of	**Dividends and Distributions**
PAYER'S Federal identification number 10-1212121	RECIPIENT'S identification number 321-00-9876	1c Capital gain distributions $	1d Nontaxable distributions $	**Copy B** **For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Jill Chambers		1e Investment expenses $	2 Federal income tax withheld $	
Street address 729- 65th Pkwy		3 Foreign tax paid $	4 Foreign country or U.S. possession	
City, state, and ZIP code Barnville, WA 96432		**Liquidation Distributions**		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV** Department of the Treasury - Internal Revenue Service

Exhibit 10



Step 4 **Figure your total income** Attach check or money order here.	7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	
	8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
	b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
	9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
	10 Unemployment compensation (insurance) from Form(s) 1099-G.	10	
	11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income.**	▶ 11	

Unemployment Compensation

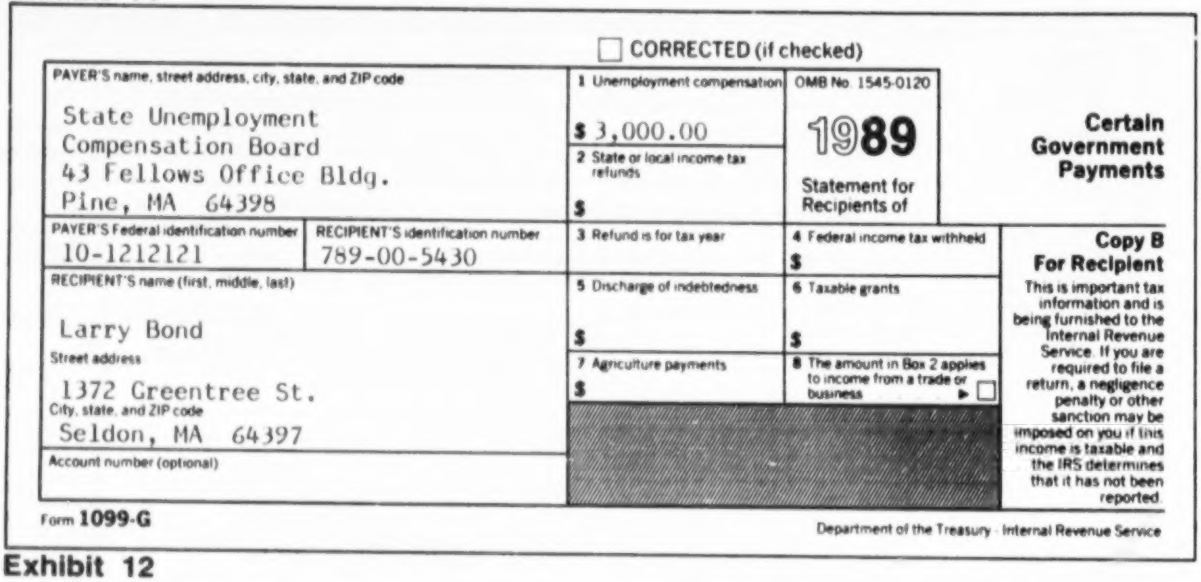
All unemployment compensation is taxable. Unemployment compensation is shown on Form 1099–G. The total amount received is shown in box 1. Enter this amount on line 10, Form 1040A.

Note: Form 1099–G may also show an amount in box 2 for state and local income tax refunds. Box 3 shows the tax year of the refund. If the taxpayer did not itemize deductions for the tax year of the refund, this refund is not taxable income. If the taxpayer did itemize deductions for that year, Form 1040 must be filed.

Exercise 4

Larry Bond's wages were $18,000, his interest was $17, and his dividends were $33. Use the information from his Form 1099–G (Exhibit 11) to complete lines 7 through 10 of Step 4 (Exhibit 12).

Exhibit 11



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
State Unemployment
Compensation Board
43 Fellows Office Bldg.
Pine, MA 64398

1 Unemployment compensation: $ 3,000.00

2 State or local income tax refunds: $

OMB No. 1545-0120

1989

Statement for Recipients of

Certain Government Payments

PAYER'S Federal identification number: 10-1212121

RECIPIENT'S identification number: 789-00-5430

3 Refund is for tax year

4 Federal income tax withheld: $

RECIPIENT'S name (first, middle, last)
Larry Bond

Street address
1372 Greentree St.

City, state, and ZIP code
Seldon, MA 64397

Account number (optional)

5 Discharge of indebtedness: $

6 Taxable grants: $

7 Agriculture payments: $

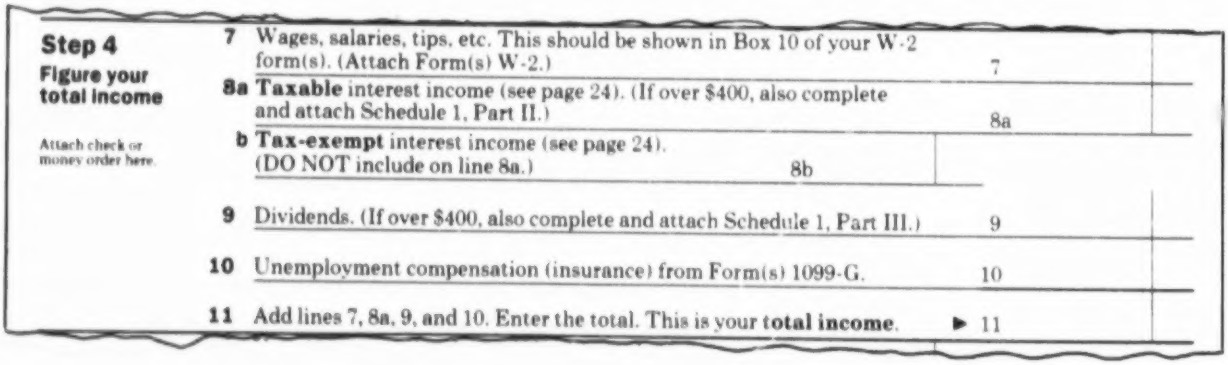
8 The amount in Box 2 applies to income from a trade or business ▶ ☐

Copy B
For Recipient
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-G**

Department of the Treasury · Internal Revenue Service

Exhibit 12



Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b	
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	

Total Income

Add lines 7, 8a, 9, and 10 on Form 1040A and enter the total on line 11.

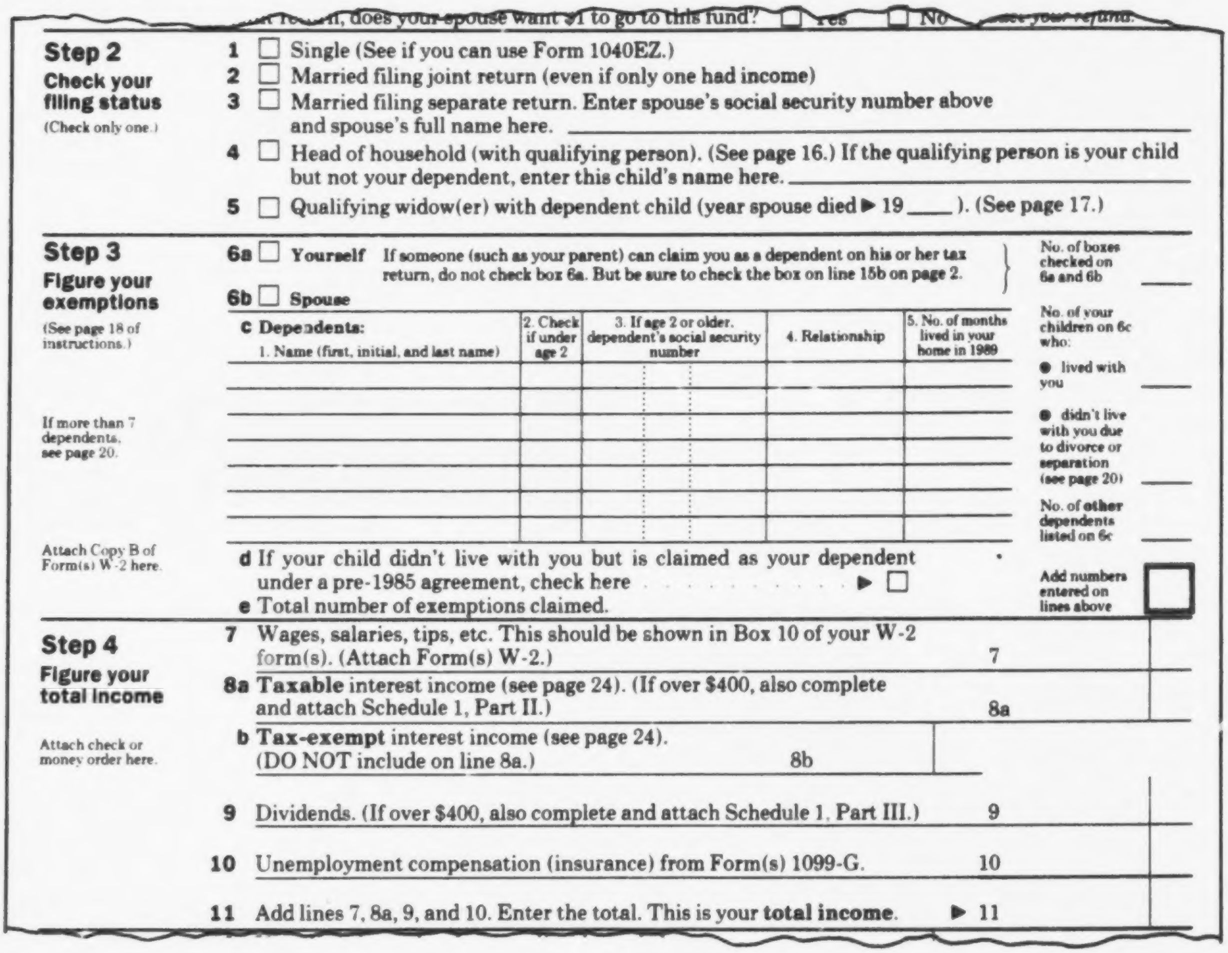
Exercise 5

Use the following information to complete Steps 2 through 4 of Jennifer Dunn's Form 1040A (Exhibit 13), and Part II, Schedule 1 (Exhibit 14).

Single, no dependents, age 30

Wages (Form W-2)—$17,600
Interest (Form 1099-INT)—$328 from First Trust
Interest (Form 1099-INT)—$132 from Goodville Fidelity
Dividends—$97
Unemployment compensation (Form 1099-G)—$2,345

Exhibit 13



does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
● lived with you ____
● didn't live with you due to divorce or separation (see page 20) ____
No. of **other** dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

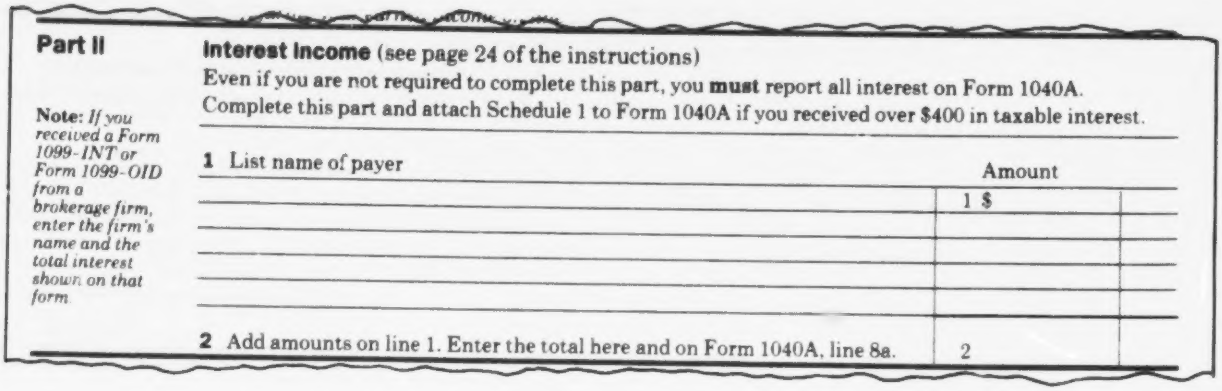
Add numbers entered on lines above ☐

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7 ____
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a ____
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b ____
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9 ____
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10 ____
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11 ____

Exhibit 14



Part II **Interest Income** (see page 24 of the instructions)

Even if you are not required to complete this part, you **must** report all interest on Form 1040A.
Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in taxable interest.

Note: *If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, enter the firm's name and the total interest shown on that form.*

1 List name of payer	Amount	
	1 $	
2 Add amounts on line 1. Enter the total here and on Form 1040A, line 8a.	2	

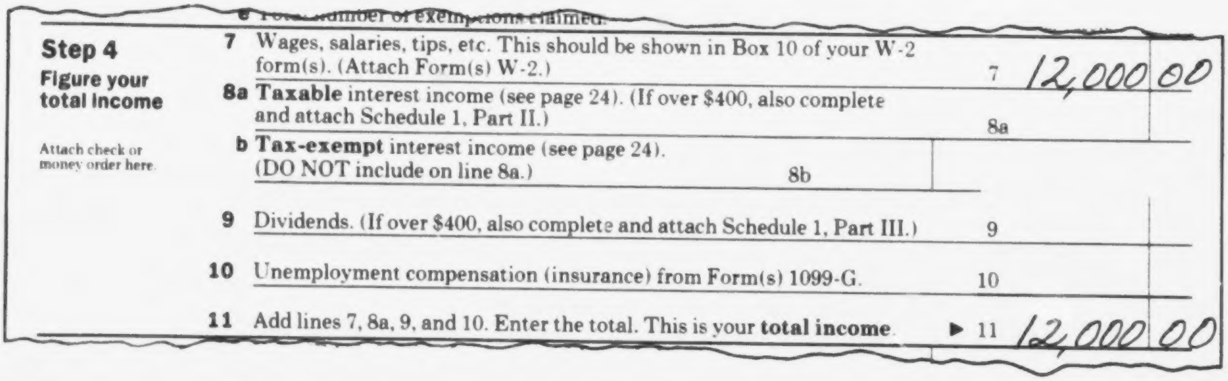
Summary

In this lesson you learned to fill in the income section (Step 4) of Form 1040A.

Answers to Exercises

1. See filled-in Exhibit 4.
2. See filled-in Exhibit 8.
3. See filled-in Exhibit 10.
4. See filled-in Exhibit 12.
5. See filled-in Exhibits 13 and 14.

Exhibit 4, filled-in

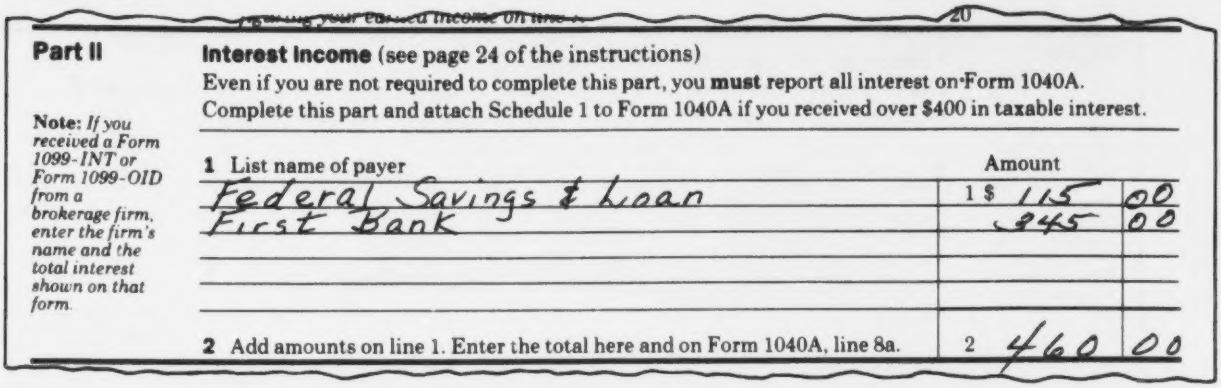


Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	12,000	00
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a		
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b			
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9		
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10		
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	12,000	00

Exhibit 8, filled-in



Part II

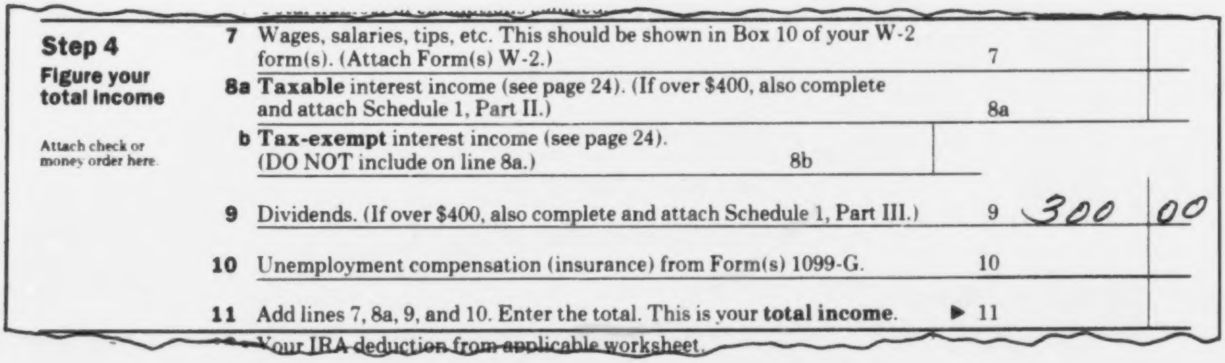
Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, enter the firm's name and the total interest shown on that form.

Interest income (see page 24 of the instructions)

Even if you are not required to complete this part, you **must** report all interest on Form 1040A. Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in taxable interest.

1 List name of payer		Amount	
Federal Savings & Loan	1	$ 115	00
First Bank		345	00
2 Add amounts on line 1. Enter the total here and on Form 1040A, line 8a.	2	460	00

Exhibit 10, filled-in



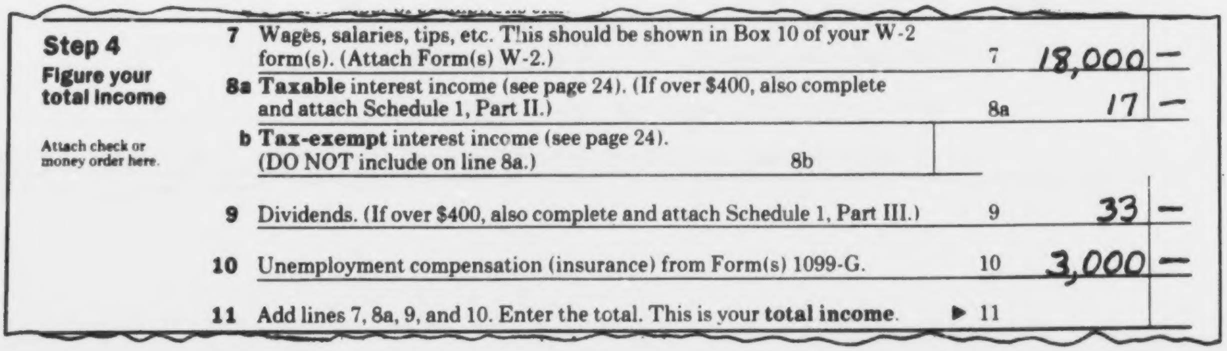
Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7		
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a		
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b		
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	300	00
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10		
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11		

Your IRA deduction from applicable worksheet.

Exhibit 12, filled-in

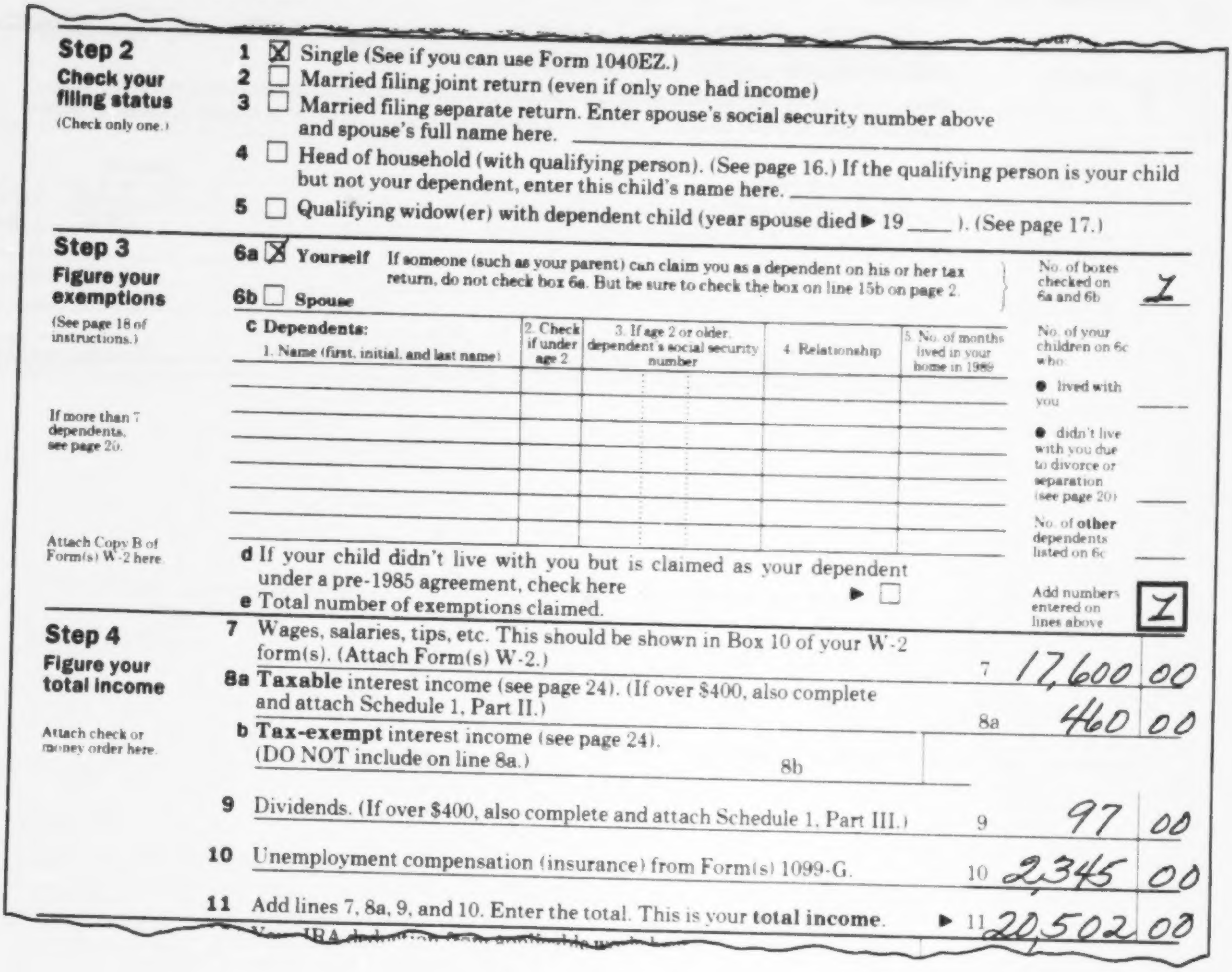


Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	18,000	—
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	17	—
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b		
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	33	—
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	3,000	—
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11		

Exhibit 13, filled-in



Step 2
Check your filing status
(Check only one.)

1 ☒ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
● lived with you ______
● didn't live with you due to divorce or separation (see page 20) ______
No. of **other** dependents listed on 6c ______

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

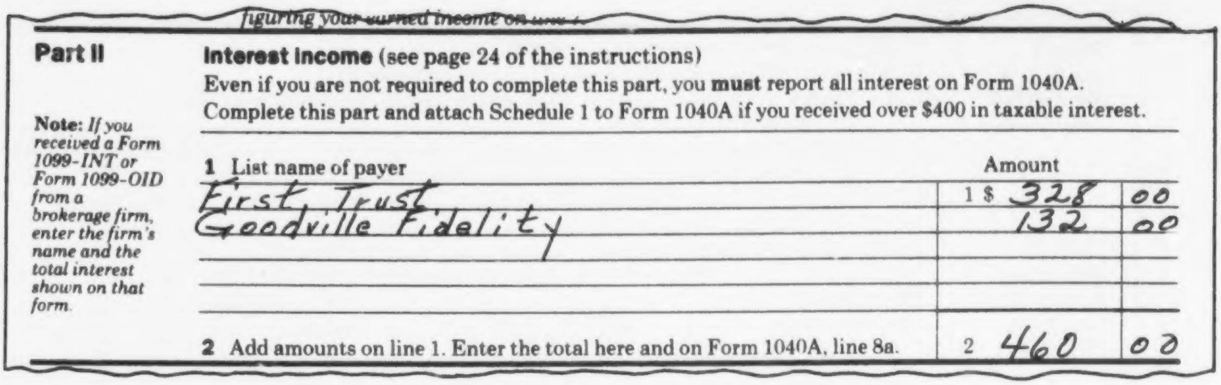
Add numbers entered on lines above: 1

Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	17,600 00
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	460 00
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	97 00
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	2,345 00
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶	11	20,502 00

Exhibit 14, filled-in



figuring your earned income on

Part II

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, enter the firm's name and the total interest shown on that form.

Interest Income (see page 24 of the instructions)

Even if you are not required to complete this part, you **must** report all interest on Form 1040A.
Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in taxable interest.

1 List name of payer	Amount	
First Trust	1 $ 328	00
Goodville Fidelity	132	00
2 Add amounts on line 1. Enter the total here and on Form 1040A, line 8a.	2 460	00

Module II

Lesson 9

Subtractions From Income

Objective

At the end of this lesson you will be able to determine a taxpayer's subtractions from income on Form 1040A.

Contents

Introduction

Contributions to an IRA

Standard Deduction

Exemptions Deduction

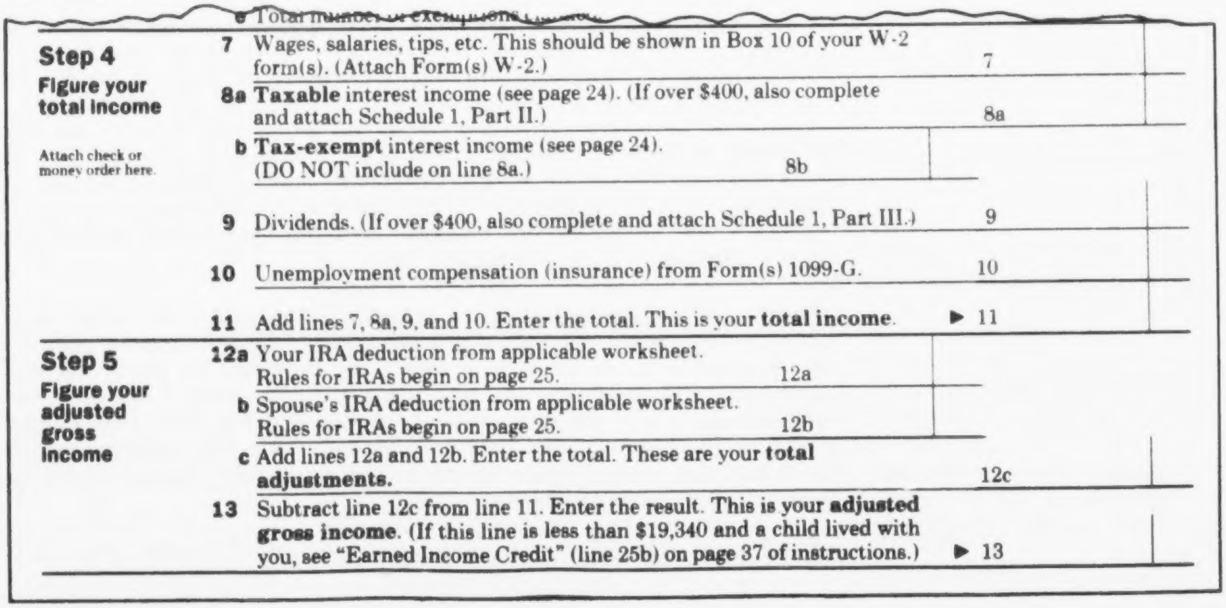
Summary

Answers to Exercises

Introduction

Three subtractions from income are allowed on Form 1040A in Steps 5 and 6: the deduction for contributions to an IRA, the standard deduction, and the exemptions deduction. Notice the order on Form 1040A (Exhibits 1 and 2). Income is totaled on line 11; the three subtractions from income are taken on lines 12c, 16, and 18, to arrive at taxable income on line 19. The tax is figured on the taxable income.

Exhibit 1



Total number of exemptions

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7

8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a

b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b

9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9

10 Unemployment compensation (insurance) from Form(s) 1099-G. 10

11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Step 5
Figure your adjusted gross income

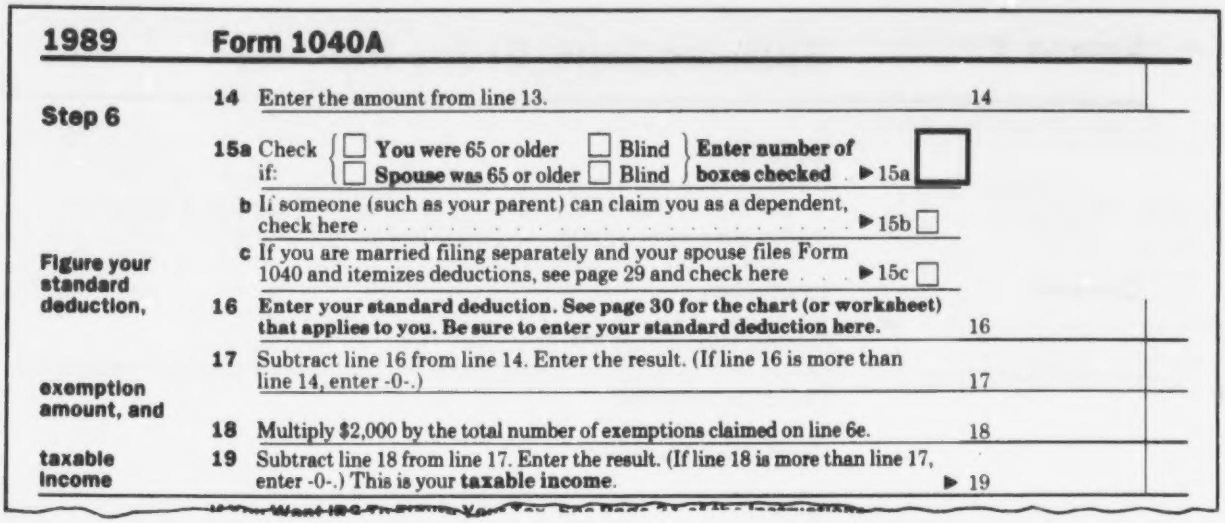
12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a

b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b

c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c

13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13

Exhibit 2



1989 **Form 1040A**

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind } **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19

Contributions to an IRA

Any taxpayer who earned compensation is eligible to make contributions to an individual retirement arrangement (IRA). A taxpayer can generally deduct the smaller of: (1) wages, salaries, and tips, or (2) contributions to IRAs, up to $2,000, as long as the taxpayer is not covered by a retirement plan at work. In this case, the taxpayer may have to reduce his or her IRA deduction based on certain dollar limits, discussed later.

Taxpayers may not use Form 1040A to deduct simplified employee pension (SEP) payments. These payments can be deducted only on Form 1040.

Married Taxpayers

If both spouses work and have IRAs, each spouse must figure the deduction separately. The total deduction on a joint return can be as much as $4,000. On a joint return, taxpayers can deduct contributions made to an IRA for an unemployed spouse or for a spouse with very little earned income who chooses to be treated as having no earned income for the year, for IRA purposes. If contributions were made to an unemployed spouse's IRA, the taxpayers can deduct the smaller of: (1) the working spouse's wages, salaries, and tips, or (2) contributions to IRAs (including contributions to the working spouse's IRA), up to $2,250. However, no more than $2,000 can be deducted as a contribution to either spouse's IRA.

Married filing separately. If a taxpayer's filing status is married filing a separate return and the taxpayer is not covered by a retirement plan at work, the taxpayer may not be able to take a full deduction for his or her IRA contribution. The taxpayer can take a full deduction ***only*** if the taxpayer did not live with his or her spouse at any time during the year. If he or she did live with the spouse during the year, the taxpayer's IRA deduction is limited to the amount shown in the "Married filing separately" column of the chart, below, under *Limits on Deduction.*

*

Limits on Deduction

If the taxpayer is covered by a retirement plan at work, his or her allowable IRA deduction may be reduced or eliminated as follows:

If the filing status is:	The allowable IRA deduction— phases out when AGI exceeds:	will be zero when AGI is:
Single, or unmarried head of household	$25,000	$35,000
Married filing jointly, or qualifying widow(er)	$40,000	$50,000
Married filing separately	-0-	$10,000

The formula for figuring the various phaseout levels is discussed more fully in Publication 590, *Individual Retirement Arrangements (IRAs).* Because the average taxpayer that you help should not have an AGI greater than the levels shown in the table above, you will not be expected to know the phaseout formula. If you do help a taxpayer with an AGI in excess of the levels, refer the taxpayer to Publication 590 or to a professional preparer.

A taxpayer may not take a deduction for any payment made to an IRA during or after the tax year in which the taxpayer reaches the age of 70½. However, a taxpayer may continue to deduct payments to a spouse's IRA until the year in which the spouse reaches the age of 70½.

Anyone who contributes more than allowed, takes distributions before age 59½ (unless disabled), or receives smaller distributions than required after reaching age 70½, is subject to additional tax. If you meet taxpayers with these or any other IRA complexities, refer them to a professional tax preparer or to Publication 590, *Individual Retirement Arrangements (IRAs).*

Nondeductible Contributions

Although deductible IRA contributions may be limited or eliminated because of the phaseout rules, a taxpayer will be able to make nondeductible contributions to new or existing IRAs. Earnings on these contributions are not taxed until they are distributed to the taxpayer.

Limit. A taxpayer can make nondeductible contributions up to $2,000 or 100% of total compensation received, whichever is less, minus the amount of allowable IRA deduction.

If a taxpayer chooses not to deduct the allowable amount of his or her contributions for the tax year, the taxpayer may increase his or her nondeductible contributions limit by that amount.

For more information on nondeductible contributions and the records the taxpayer must keep, consult or refer the taxpayer to Publication 590.

When to Deduct IRA Contributions

Individuals may deduct IRA contributions for 1989 that are made by April 16, 1990. Individuals may not deduct contributions they made in 1989 and deducted on their 1988 tax return. The contribution does not have to be made before the return is filed. However, if the contribution is not made by April 16, and the taxpayer deducted an IRA contribution on his or her return, or claimed a deduction amount different from the contribution actually made, the taxpayer must then file an amended return.

Worksheet

The worksheet (Exhibit 3), which is also in the instructions for Form 1040A, will help you figure taxpayers' deductions for contributions to an IRA. Where necessary, the *Examples* explain that the taxpayer was not covered by a retirement plan at work.

Example

Richard and Lynn Barnett are filing a joint return. Richard earned $17,000 and contributed $1,400 to an IRA. Lynn, who worked part-time, earned $4,500 and contributed $1,000 to an IRA. Their deduction for contributions to an IRA is $2,400. If they filed separate returns and lived together during the year, Richard could not deduct any of his IRA contribution and Lynn could deduct $1,000 because her adjusted gross income is less than $10,000.

Example

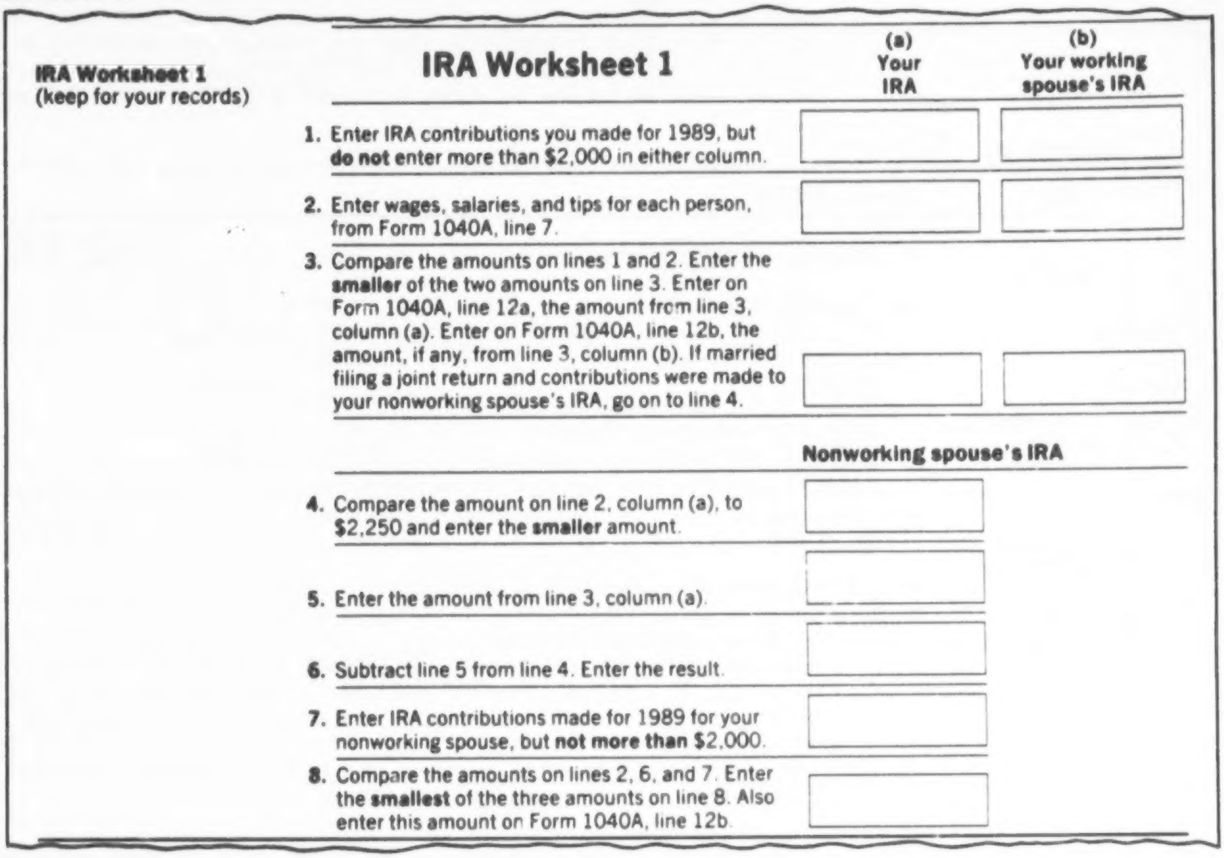
David and Ruth Webster are filing a joint return. David earned $19,000. Ruth was unemployed. David contributed $1,800 into his IRA and $400 into an IRA for Ruth. Their deduction for contributions to an IRA is $2,200. If David filed a separate return and lived with Ruth during the tax year, he would have no deduction for his IRA contribution because his AGI is over $10,000. If David did not live with Ruth at all during the year, he could deduct only $1,800 (the contributions to his own IRA) as long as he was not covered by a retirement plan at work. Ruth could not deduct any contributions on a separate return because she received no wages, salaries, or tips.

Exercise 1

Gary and Sharon Johnson both have IRAs. Gary earned $11,900 and contributed $1,100 to his IRA. Sharon earned $15,600 and contributed $1,500 to her IRA. How much is their deduction on a joint return?

Answer

Exhibit 3



IRA Worksheet 1
(keep for your records)

IRA Worksheet 1

	(a) Your IRA	(b) Your working spouse's IRA
1. Enter IRA contributions you made for 1989, but **do not** enter more than $2,000 in either column.		
2. Enter wages, salaries, and tips for each person, from Form 1040A, line 7.		
3. Compare the amounts on lines 1 and 2. Enter the **smaller** of the two amounts on line 3. Enter on Form 1040A, line 12a, the amount from line 3, column (a). Enter on Form 1040A, line 12b, the amount, if any, from line 3, column (b). If married filing a joint return and contributions were made to your nonworking spouse's IRA, go on to line 4.		

	Nonworking spouse's IRA
4. Compare the amount on line 2, column (a), to $2,250 and enter the **smaller** amount.	
5. Enter the amount from line 3, column (a).	
6. Subtract line 5 from line 4. Enter the result.	
7. Enter IRA contributions made for 1989 for your nonworking spouse, but **not more than** $2,000.	
8. Compare the amounts on lines 2, 6, and 7. Enter the **smallest** of the three amounts on line 8. Also enter this amount on Form 1040A, line 12b.	

Standard Deduction

If a taxpayer does not itemize deductions, he or she can claim the **standard deduction**. The amount of the standard deduction depends on the taxpayer's filing status and whether the taxpayer (or the taxpayer's spouse if a joint return is filed) is 65 or over or blind. A taxpayer who is blind or at least 65 years old is entitled to use a higher standard deduction, as discussed later in this lesson.

The amount of the 1989 standard deduction for each filing status is as follows:

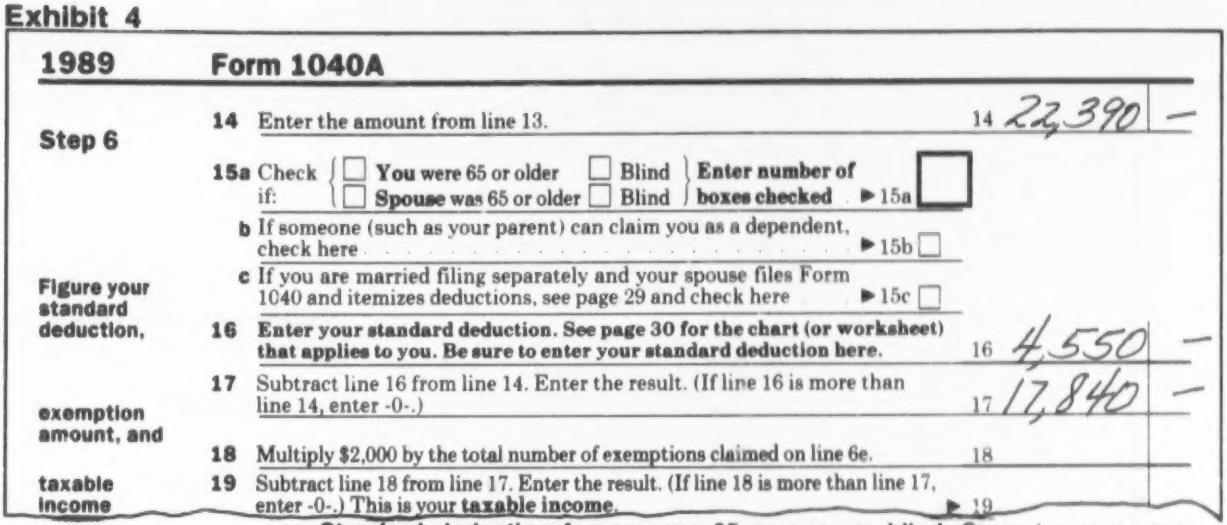
Filing Status	Standard Deduction Under 65 and not Blind
Single	$3,100
Married filing jointly	5,200
* Married filing separately	2,600
Head of household	4,550
Qualifying widow(er)	5,200

If the taxpayer is under 65 and not blind, enter the appropriate amount from the column above on line 16 of Form 1040A. Then subtract line 16 from the amount on line 14, adjusted gross income, and enter the result on line 17 (Exhibit 4).

Example

Nate Alexander is 33 years old and is not blind. His wife died in 1986, leaving him with their dependent daughter, Marie. Nate has not remarried. He paid for the full cost of keeping up a home both for him and Marie. Nate can file as head of household in 1989. He, therefore, enters $4,550 on line 16 of his Form 1040A and subtracts this amount from his adjusted gross income, $22,390, on line 14, noting the result, $17,840, on line 17 (Exhibit 4).

Exhibit 4



1989 **Form 1040A**

Step 6

14 Enter the amount from line 13. 14 22,390 —

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

Figure your standard deduction,

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16 4,550 —

exemption amount, and

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17 17,840 —

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

taxable income

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.** ▶ 19

Standard deduction for persons 65 or over or blind. Some taxpayers may be entitled to a ***higher standard deduction*** if they were age 65 or over or blind by the last day of the tax year. On a single return, taxpayers can claim up to two additional amounts for a higher standard deduction, and on a joint return they can claim up to a total of four (see the *Standard Deduction Table,* later).

On a separate return, a taxpayer can claim the higher standard deduction because his or her spouse is 65 or over or blind, only if the spouse had no gross income and was not the dependent of another taxpayer.

If a taxpayer (or spouse, if applicable as explained above) was 65 or over, or was blind, or both, in 1989, you should check the appropriate box or boxes on line 15a, Form 1040A. Next you total the number of boxes checked and turn to the *Standard Deduction Table,* later. This chart will tell you which amount to enter on line 16. You then subtract line 16 from the amount on line 14 and enter the result on line 17.

Standard Deduction Table

Caution. This table does not apply to taxpayers who can be claimed as dependents. See the table and worksheets for dependents, later.

STEP 1. Check the correct boxes below for a taxpayer.

☐ 65 or older ☐ Blind

Check the correct boxes below that apply to the taxpayer's spouse if claiming spouse's exemption.

☐ 65 or older ☐ Blind

Total number of boxes you checked .... ______

STEP 2. Find the taxpayer's standard deduction.

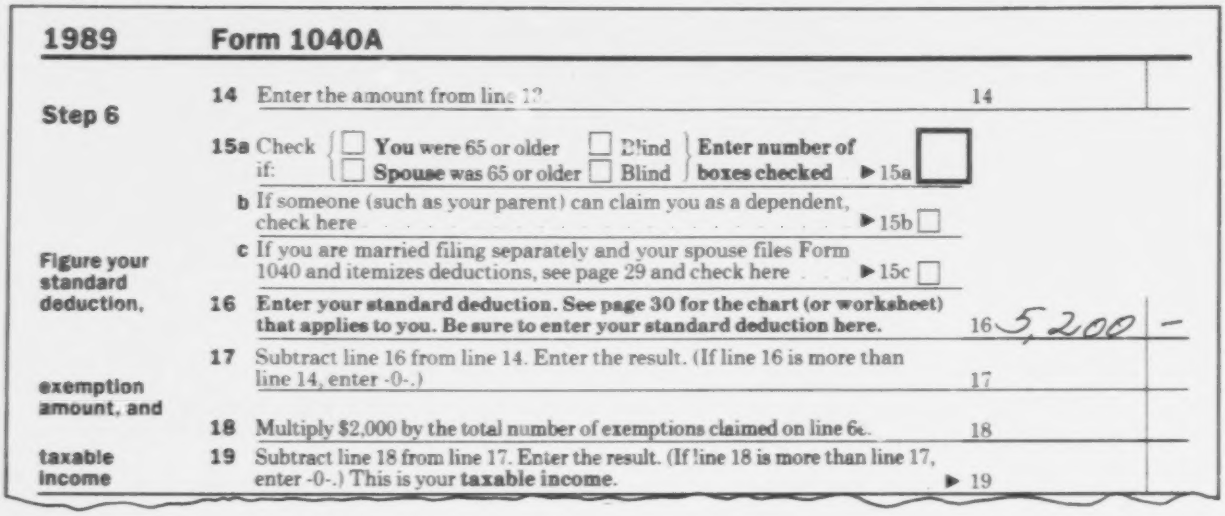
If filing status is:	and the number of boxes you checked in Step 1 above is:	taxpayer's standard deduction is:
Single	1	$3,850
	2	4,600
Married filing jointly	1	$5,800
	2	6,400
	3	7,000
	4	7,600
Married filing separately*	1	$3,200
	2	3,800
	3	4,400
	4	5,000
Head of household	1	$5,300
	2	6,050
Qualifying widow(er)	1	$5,800
	2	6,400

* If spouse itemizes deductions on a separate return, the taxpayer's standard deduction is zero.

Example

Larry and Donna Dorsey are filing a joint return for 1989. Both are under 65 and neither is blind. Their standard deduction for 1989 is $5,200. You would enter this amount on line 16 of their Form 1040A. Since neither qualifies, Larry and Donna may not claim the higher standard deduction for persons who are 65 or over or blind (Exhibit 5).

Exhibit 5



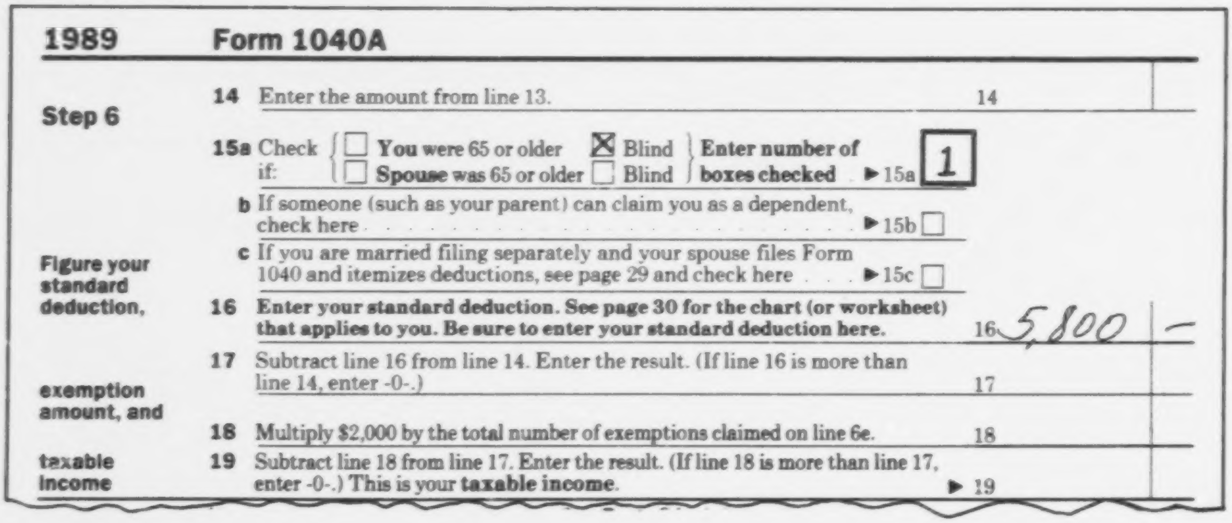
1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13	14	
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a		☐
	b	If someone (such as your parent) can claim you as a dependent, check here . . . ▶ 15b ☐		
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here . . . ▶ 15c ☐		
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	5,200 —
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.** ▶	19	

Example

Assume the same facts as in the example above, except that Larry is blind at the end of 1989. Their standard deduction is $5,800, which you can find in the *Standard Deduction Table,* shown earlier. $5,800 is then entered on line 16 of the Dorseys' Form 1040A for 1989 (Exhibit 6).

Exhibit 6



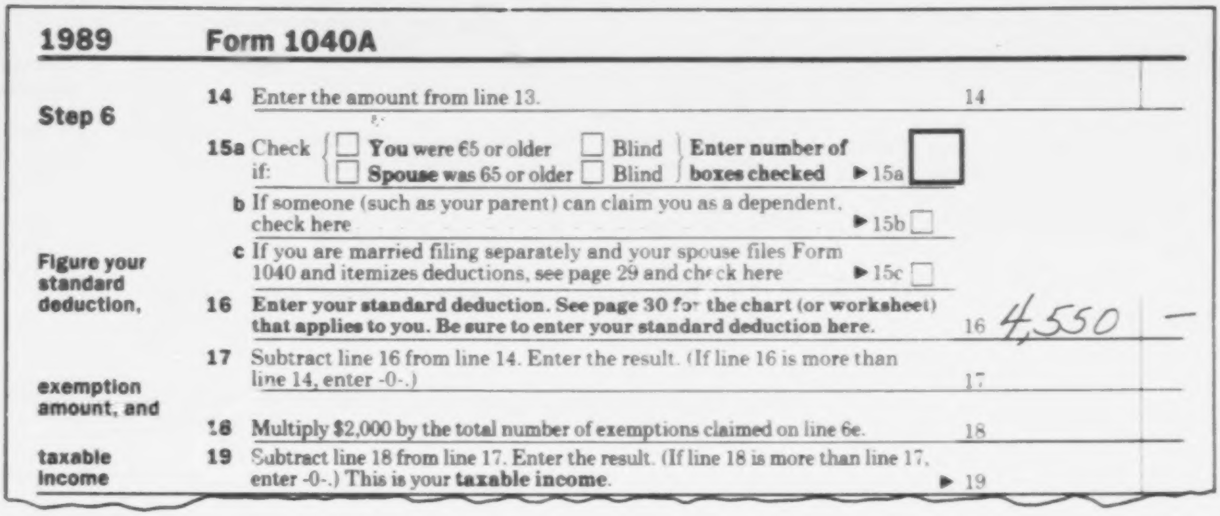
1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14	
	15a	Check if: ☐ **You** were 65 or older ☒ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a		1
	b	If someone (such as your parent) can claim you as a dependent, check here . . . ▶ 15b ☐		
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here . . . ▶ 15c ☐		
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	5,800 —
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.** ▶	19	

Example

Susan Green is 35 years old and qualifies as head of household in 1989. Her standard deduction is $4,550, which you enter on line 16 of Susan's Form 1040A. She is not entitled to the higher standard deduction for persons who are 65 or over or blind, so you would leave line 15a blank (Exhibit 7).

Exhibit 7



1989 **Form 1040A**

Step 6	**14** Enter the amount from line 13.	14
	15a Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind } **Enter number of boxes checked** ▶ 15a	☐
	b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐	
Figure your standard deduction,	**c** If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐	
	16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16 4,550 —
exemption amount, and	**17** Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17
	18 Multiply $2,000 by the total number of exemptions claimed on line 6e.	18
taxable income	**19** Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶	19

Exercise 2

For each of the taxpayers described below, figure the standard deduction you would enter on line 16, Form 1040A.

a. Rosa Rhodes is blind, 45 years old and is married filing a separate return.

____

b. Calvin and Cleola Barclay are filing a joint return. Calvin is 64 and blind, and Cleola is 66 and has no visual problems.

____

c. Gary Winchester got a final divorce from his wife earlier in 1989. He is blind and has no dependent children.

____

* **Standard deduction for dependents.** The standard deduction for an individual who can be claimed as a dependent on another taxpayer's (such as a parent) return generally is the greater of (a) $500, or (b) the individual's earned income, generally not more than $3,100.

However, the standard deduction for a dependent who is 65 or older or blind may be higher.

The table below can be used to determine the standard deduction for a dependent who has earned income of $500 or less for the year.

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Standard Deduction Table
For dependents
Who have earned income of
$500 or less

Filing Status	Standard Deduction
Single	
Under 65 or not blind	$ 500
65 or older or blind	$1,250
65 or older and blind	$2,000
Married Filing Separately*	
Under 65 and not blind	$ 500
65 or older or blind	$1,100
65 or older and blind	$1,700

* If spouse itemizes deductions on a separate return, standard deduction is zero.

The worksheet below can be used to determine the standard deduction for a dependent who has earned income of more than $500 for the year.

Standard Deduction Worksheet For Dependents

Standard Deduction Worksheet For Dependents (Keep for your records)
Use this worksheet ONLY if someone can claim you as a dependent.

1.	Enter the amount from Form 1040A, line 7.	
2.	Minimum amount.	500.00
3.	Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts here.	
4.	Enter on line 4 the amount shown below for your filing status. • Single, enter $3,100 • Married filing a separate return, enter $2,600 • Married filing a joint return, or Qualifying widow(er) with dependent child, enter $5,200 • Head of household, enter $4,550	
5.	**Standard deduction**	
a.	Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts. If under 65 and not blind, stop here and enter this amount on Form 1040A, line 16. Otherwise, go on to line 5b.	
b.	If 65 or older or blind, multiply $750 ($600 if married filing a joint or separate return, or qualifying widow(er) with dependent child) by the number on Form 1040A, line 15a. Enter the result.	
c.	Add lines 5a and 5b. Enter the total here and on Form 1040A, line 16.	

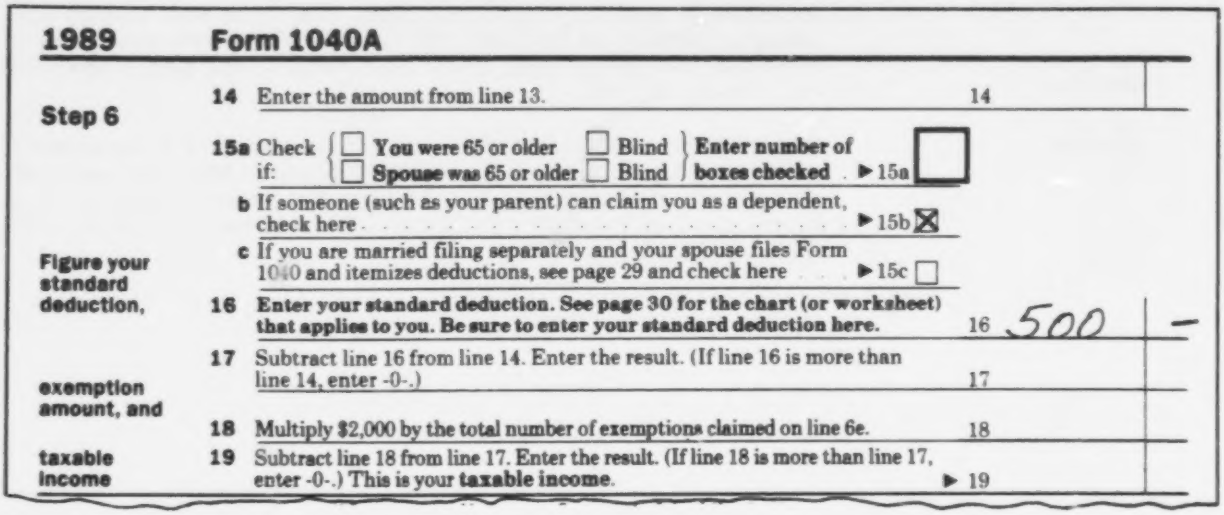
If the taxpayer you are helping is claimed as a dependent on another taxpayer's return, check the appropriate box on line 15b and enter the appropriate standard deduction amount ($500 or up to one of the amounts listed in the chart or figured using the worksheet above) on line 16 of the taxpayer's Form 1040A. Subtract this amount from the amount on line 14, adjusted gross income, and enter the result on line 17.

You may want to use the worksheet for a person who can be claimed as a dependent in the Form 1040A Instructions in order to work through the following examples on your own. As you work through the examples using the worksheet, you should arrive at the same result as the answer given near the end of each example.

Example

Michael James is single, 19 years old, and is claimed as a dependent on his parents' 1989 tax return. He has interest income of $600 and wages of $150. Mike's standard deduction is $500 because the greater of $500 or his earned income, $150, is $500. This amount is entered on line 16 of Mike's Form 1040A (Exhibit 8).

Exhibit 8



1989 **Form 1040A**

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind } **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☒

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16 500 —

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

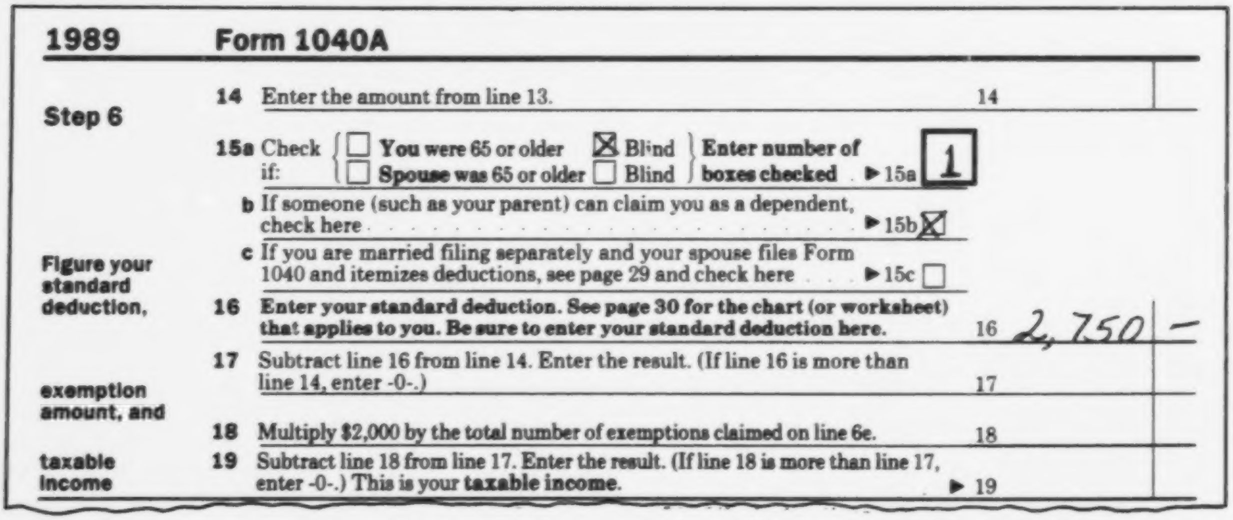
18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19

Example

Amy DeLong, who is single, is claimed as a dependent on her parents' 1989 tax return. She is 18 years old and blind. She has interest income of $900 and wages of $2,000. Her standard deduction is $2,750, which is her earned income of $2,000 plus $750 (see worksheet above). Amy's standard deduction is limited to her earned income (up to $3,100) plus $750, because she is a single person who is under 65 and blind. (See Exhibit 9.)

Exhibit 9



1989 **Form 1040A**

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14

15a Check if: ☐ **You were 65 or older** ☒ Blind ☐ **Spouse was 65 or older** ☐ Blind } **Enter number of boxes checked** ▶ 15a 1

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☒

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16 2,750 —

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

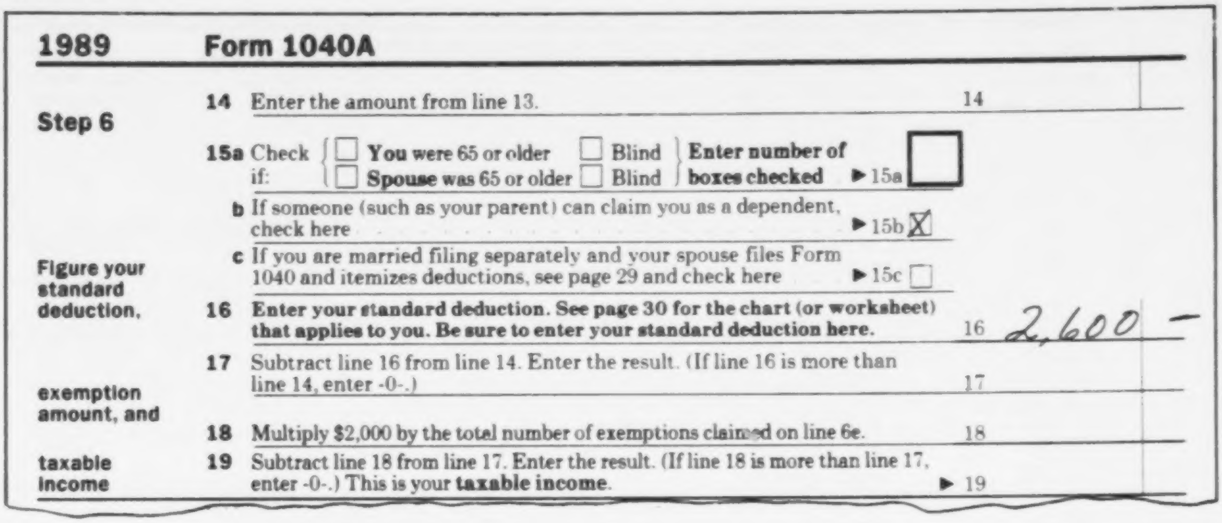
19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19

Example

Joe Johnston, a 22-year-old full-time college student, is claimed as a dependent on his parents' 1989 tax return. Joe is married and files a separate return. His wife does not itemize deductions on her separate return.

Joe had $1,200 in interest income and wages of $2,800. His standard deduction to be entered on line 16, Form 1040A, is $2,600 (Exhibit 10), because the greater of $500 or his earned income is $2,800, but his standard deduction to be entered on line 16 cannot be more than $2,600 (the maximum allowable standard deduction for a dependent under 65 and not blind who files a separate return).

Exhibit 10



1989 **Form 1040A**

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind } **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☒

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16 2,600 –

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19

Spouse who itemizes deductions. If the taxpayer you are helping is married and filing a separate return on Form 1040A, and the taxpayer's spouse is filing a Form 1040 with itemized deductions, you should check the box on line 15c of Form 1040A. Then read the Form 1040A instructions where it explains that, if the taxpayer's spouse itemizes deductions, the taxpayer cannot claim the standard deduction. If the taxpayer has no itemized deductions and does not otherwise have to file Form 1040, enter zero (0) on line 16 of Form 1040A.

Exemptions Deduction

* For each exemption claimed, $2,000 is subtracted from income. Line 18 of Form 1040A instructs you to multiply $2,000 by the number of exemptions claimed on line 6e. This seems easy, but many people make mistakes on this line. Be sure you multiply by the right amount when you figure the exemptions deduction.

Exercise 3

a. Complete Steps 4 through 6 of Form 1040A (Exhibits 11 and 12) for Lewis and Esther Pitkin. They file jointly and have a dependent daughter, Karen, who is 3 years old. Lewis earned $21,900. Esther was unemployed. They made no IRA contributions.

Exhibit 11

Step 4 **Figure your total income**	**7**	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)		7
	8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)		8a
Attach check or money order here	**b**	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b	
	9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)		9
	10	Unemployment compensation (insurance) from Form(s) 1099-G.		10
	11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.		▶ 11
Step 5 **Figure your adjusted gross income**	**12a**	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12a	
	b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12b	
	c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**		12c
	13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)		▶ 13

Exhibit 12

1989 Form 1040A

Step 6	**14**	Enter the amount from line 13.	14
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a ☐	
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐	
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐	
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19

b. Complete Steps 2 through 6 of Form 1040A (Exhibits 13 and 14) for Isabelle Marengo. Isabelle is a head of household and her dependent child, Frances, who is 10 years old (SSN: 543-00-2211), lives with her. Isabelle's Form W-2 shows that her wages were $14,600, which was her only income. She made no IRA contributions.

Exhibit 13

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ________
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 20) ____

No. of **other** dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

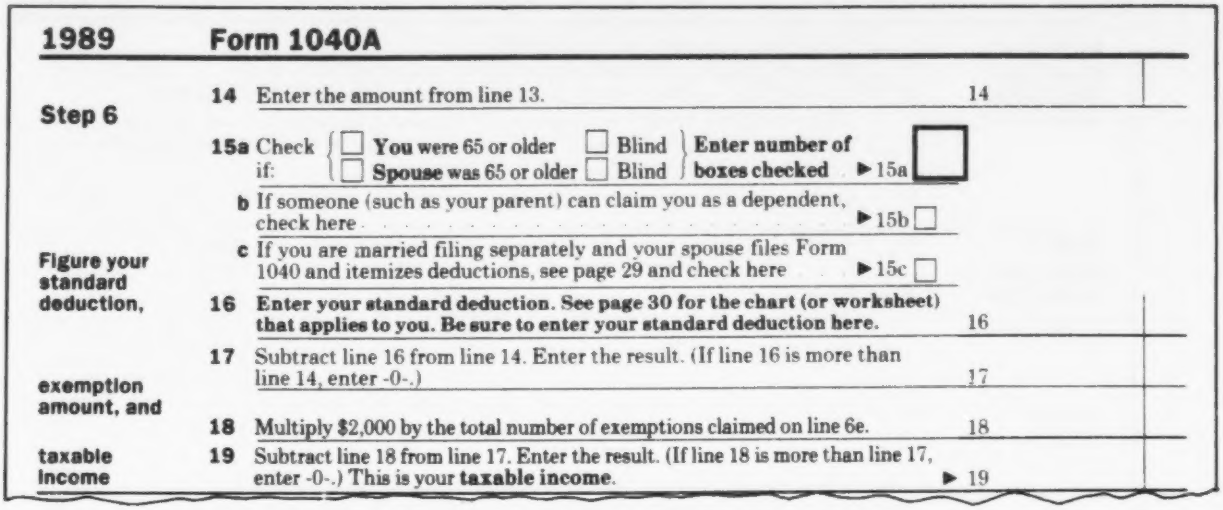
Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13

Exhibit 14



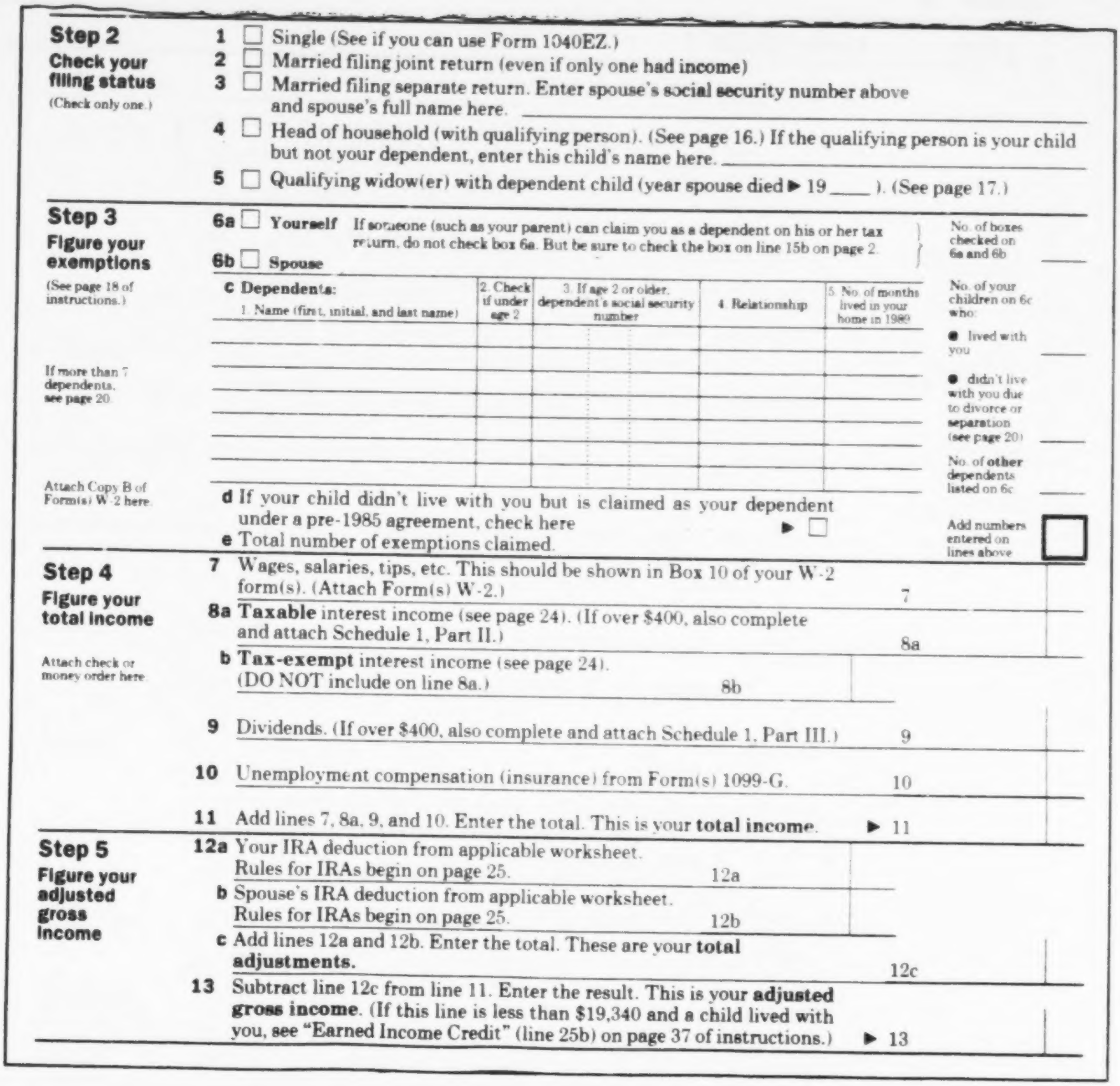
1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked**	▶ 15a ☐
	b	If someone (such as your parent) can claim you as a dependent, check here	▶ 15b ☐
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here	▶ 15c ☐
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19

Exercise 4

Fill in Steps 2 through 6 of Form 1040A (Exhibits 15 and 16) for Katheryn Zavala who is head of household and claims her dependent mother, Racine. Her mother lived with her all year and had less than $2,000 in income. Racine Zavala's social security number is 222-00-3333. Katheryn provided more than half of her mother's support. Katheryn's only income was wages of $15,200. She contributed $300 to an IRA.

Exhibit 15



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
● lived with you ______
● didn't live with you due to divorce or separation (see page 20) ______
No. of **other** dependents listed on 6c ______

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

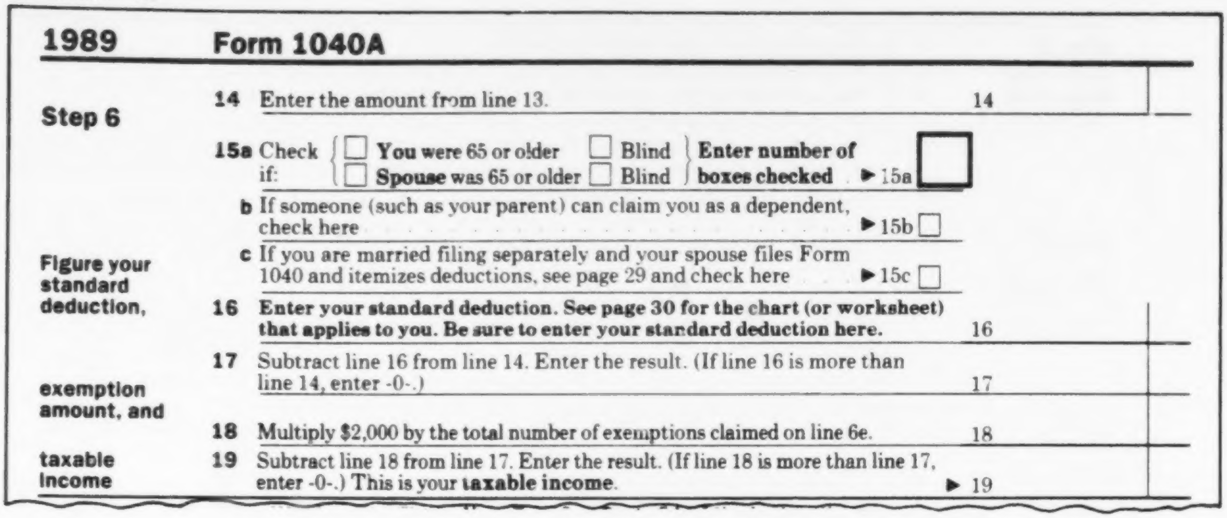
Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13

Exhibit 16



1989 **Form 1040A**

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14

15a Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19

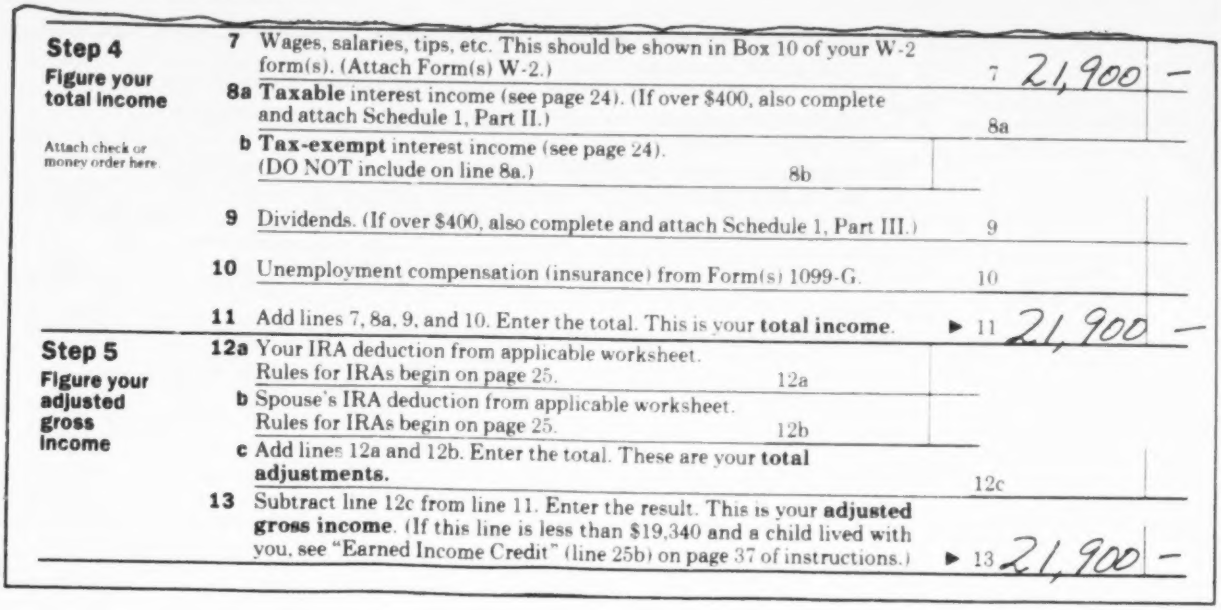
Summary

This lesson covers the three subtractions from total income on Form 1040A: the deduction for contributions to an IRA, the standard deduction, and the exemptions deduction. In making these subtractions you arrive at taxable income.

Answers to Exercises

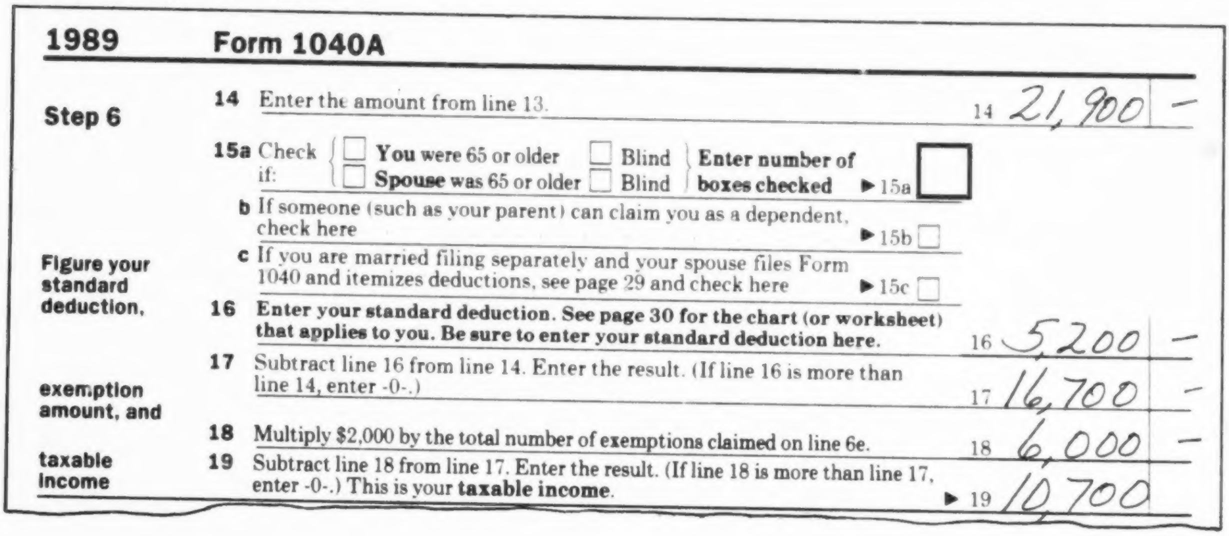
1. $2,600.
2. a. $3,200.
   b. $6,400.
   c. $3,850.
3. a. See filled-in Exhibits 11 and 12.
   b. See filled-in Exhibits 13 and 14.
4. See filled-in Exhibits 15 and 16.

Exhibit 11, filled-in



Step 4 **Figure your total income**	7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	21,900 —
Attach check or money order here.	8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
	b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
	9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
	10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
	11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	21,900 —
Step 5 **Figure your adjusted gross income**	12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a		
	b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b		
	c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
	13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	21,900 —

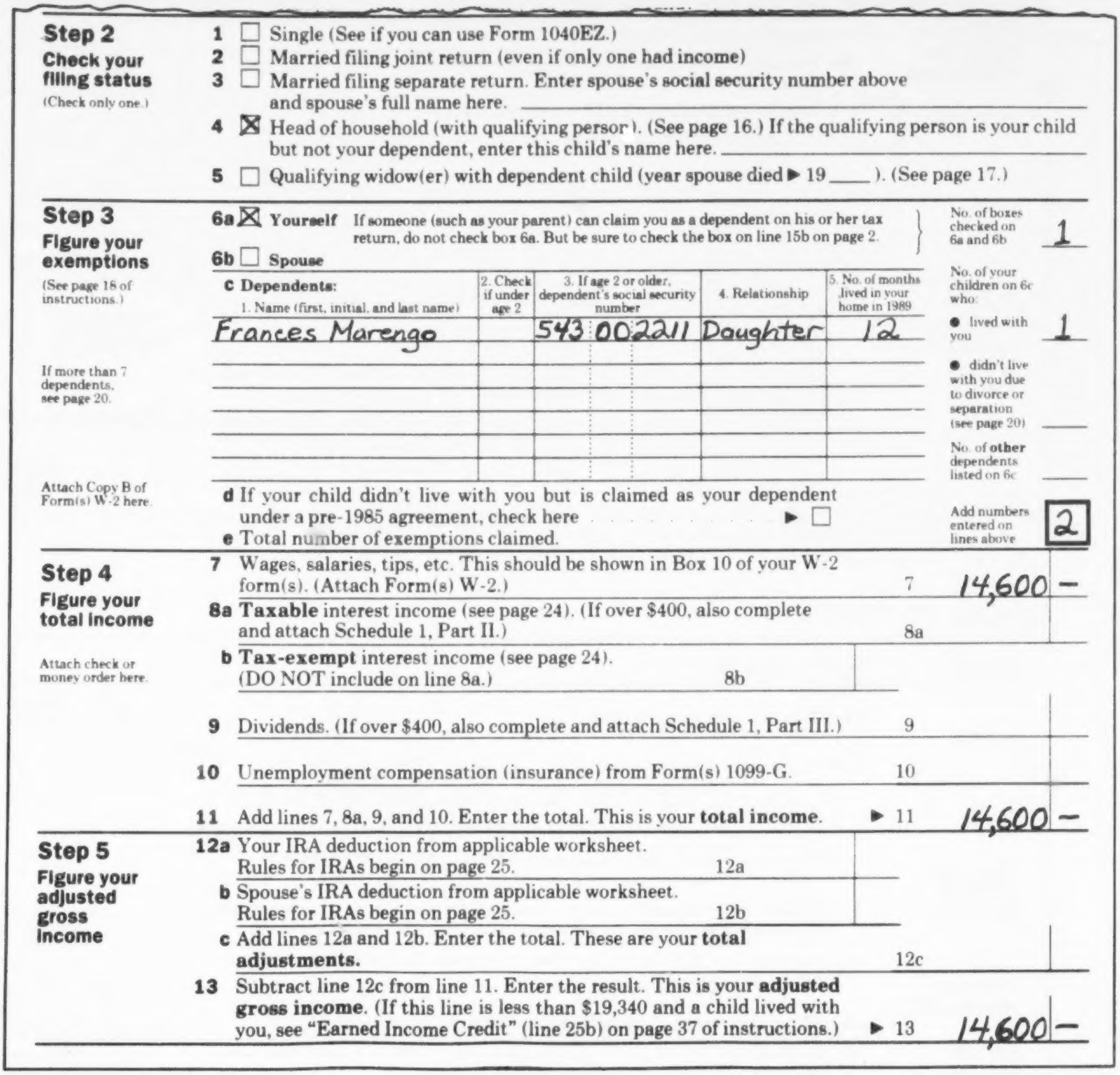
Exhibit 12, filled-in



1989 **Form 1040A**

Step 6	14	Enter the amount from line 13.	14	21,900 —
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked**	▶ 15a	☐
	b	If someone (such as your parent) can claim you as a dependent, check here	▶ 15b	☐
Figure your standard deduction,	c	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here	▶ 15c	☐
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	5,200 —
exemption amount, and	17	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	16,700 —
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	6,000 —
taxable income	19	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19	10,700

Exhibit 13, filled-in



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ________
4 ☒ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c **Dependents:**

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Frances Marengo		543 00 2211	Daughter	12

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 20): ____

No. of **other** dependents listed on 6c: ____

If more than 7 dependents, see page 20.

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed.

Add numbers entered on lines above: 2

Step 4
Figure your total income

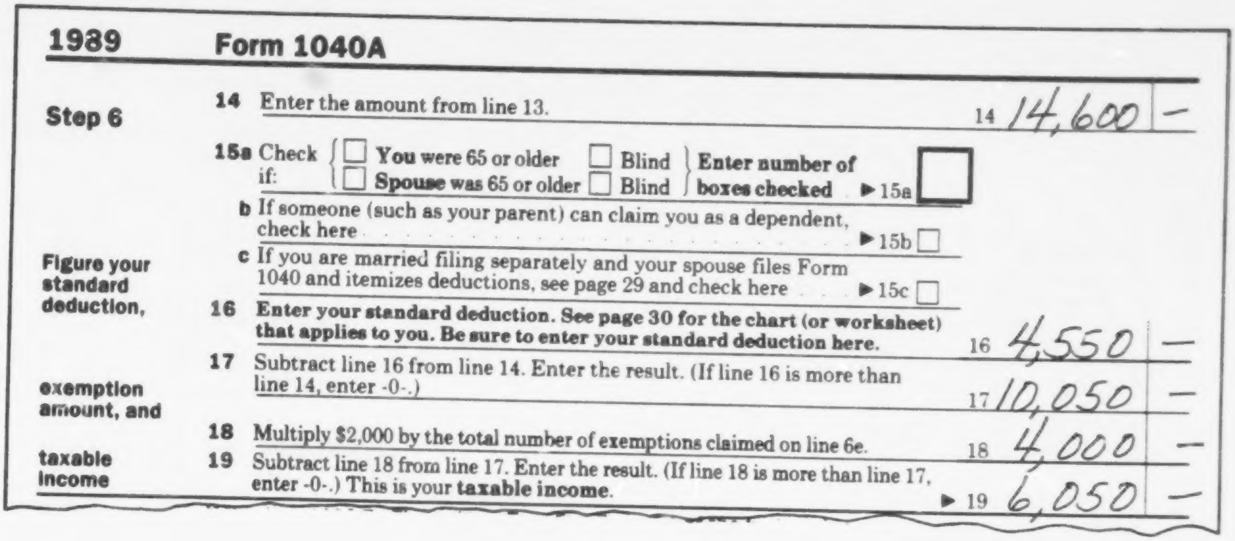
Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	14,600 —
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b	
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	14,600 —

Step 5
Figure your adjusted gross income

12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12a	
b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12b	
c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	14,600 —

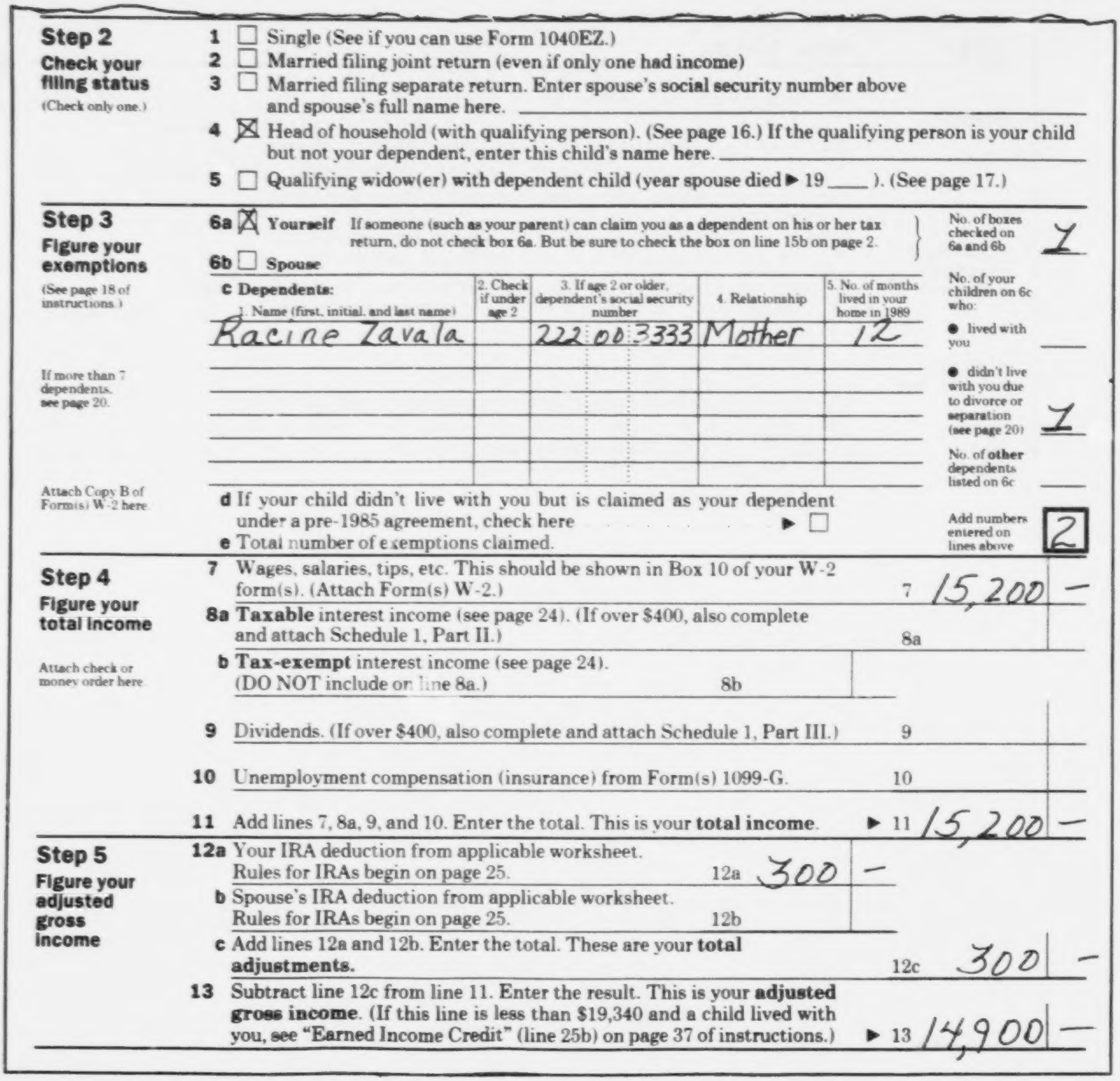
Exhibit 14, filled-in



1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14	14,600	–
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked**	▶ 15a	☐	
	b	If someone (such as your parent) can claim you as a dependent, check here	▶ 15b ☐		
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here	▶ 15c ☐		
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	4,550	–
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	10,050	–
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	4,000	–
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19	6,050	–

Exhibit 15, filled-in



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☒ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Racine Zavala		222 00 3333	Mother	12

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 20) 1

No. of other dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above: 2

Step 4
Figure your total income

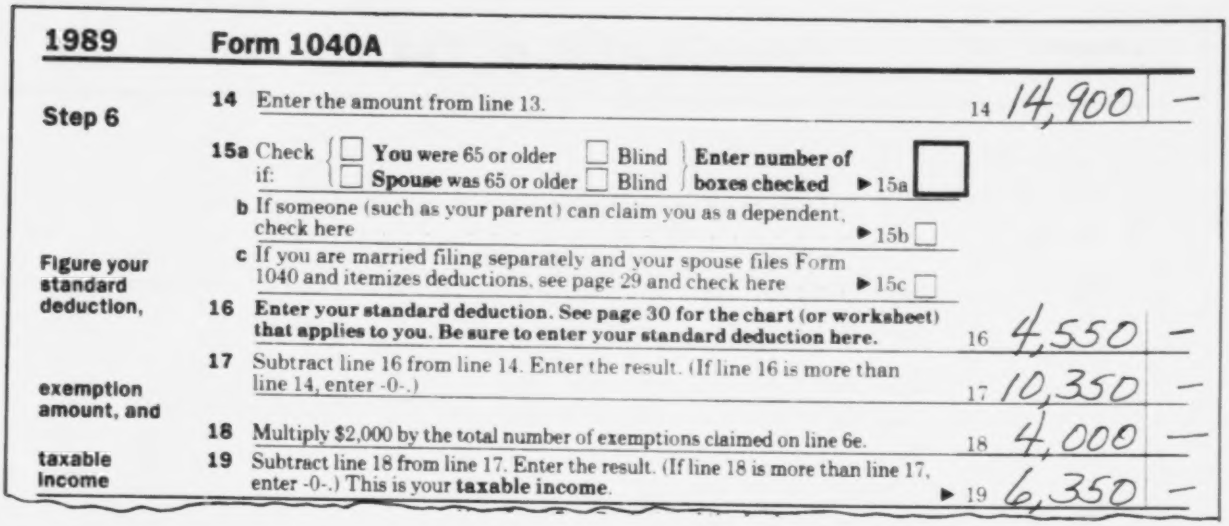
Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	15,200 —
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	15,200 —

Step 5
Figure your adjusted gross income

12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a 300 —		
b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b		
c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	300 —
13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	14,900 —

Exhibit 16, filled-in



1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14	14,900 –
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a ☐		
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐		
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐		
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	4,550 –
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	10,350 –
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	4,000 –
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19	6,350 –

Lesson 10

Computation of Tax

Objectives

At the end of this lesson you will be able to determine:

1. The correct tax liability on Form 1040A, using the Tax Table.
2. The effect of receiving advance earned income credit payments on tax liability.
3. If a taxpayer is due a refund or owes more tax.

Contents

Introduction

Using the Tax Table

Supplemental Medicare Premium

Advance Earned Income Credit

Refund or Balance Due

Summary

Answers to Exercises

Introduction

This lesson explains the rest of the line entries on Form 1040A. You will learn how to figure the total tax and determine whether the taxpayer will receive a refund or owe tax. The total tax depends on the entries you already made for filing status, exemptions, income, credits, and payments.

* **Caution: As this publication was being prepared for print, both Houses of Congress voted to repeal the supplemental Medicare premium. For additional information, see page v at the beginning of this book.**

Using the Tax Table

The Tax Table is in the Instructions for Form 1040A. Generally, all taxpayers who file Form 1040A will use the Tax Table to find their tax. The tax is based on filing status and on taxable income (line 19 of Form 1040A).

On the Tax Table (Exhibit 1), find the income bracket in which the taxable income on line 19 falls. Go across that line until you reach the column for the appropriate filing status. The figure there is the tax you enter on line 20. If the taxpayer's income is the same as the ending amount in a tax bracket, go to the next tax bracket to find the tax.

Be careful to use the correct amount from the Tax Table. Misreading the Tax Table causes a number of mistakes on returns. Entering the wrong tax will delay processing the return.

Example

Roger Lyon is single and his taxable income is $8,150. His tax liability is $1,226, not $1,219 (see Exhibit 1), because $8,150 is more than the lower tax bracket. The highest income that the lower bracket would cover is $8,149.99.

Exhibit 1

1989 Tax Table—*Continued*

If 1040A, line 19, OR 1040EZ, line 5 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
5,000					
5,000	**5,050**	754	754	754	754
5,050	**5,100**	761	761	761	761
5,100	**5,150**	769	769	769	769
5,150	**5,200**	776	776	776	776
5,200	**5,250**	784	784	784	784
5,250	**5,300**	791	791	791	791
5,300	**5,350**	799	799	799	799
5,350	**5,400**	806	806	806	806
5,400	**5,450**	814	814	814	814
5,450	**5,500**	821	821	821	821
5,500	**5,550**	829	829	829	829
5,550	**5,600**	836	836	836	836
5,600	**5,650**	844	844	844	844
5,650	**5,700**	851	851	851	851
5,700	**5,750**	859	859	859	859
5,750	**5,800**	866	866	866	866
5,800	**5,850**	874	874	874	874
5,850	**5,900**	881	881	881	881
5,900	**5,950**	889	889	889	889
5,950	**6,000**	896	896	896	896
6,000					
6,000	**6,050**	904	904	904	904
6,050	**6,100**	911	911	911	911
6,100	**6,150**	919	919	919	919
6,150	**6,200**	926	926	926	926
6,200	**6,250**	934	934	934	934
6,250	**6,300**	941	941	941	941
6,300	**6,350**	949	949	949	949
6,350	**6,400**	956	956	956	956
6,400	**6,450**	964	964	964	964
6,450	**6,500**	971	971	971	971
6,500	**6,550**	979	979	979	979
6,550	**6,600**	986	986	986	986
6,600	**6,650**	994	994	994	994
6,650	**6,700**	1,001	1,001	1,001	1,001
6,700	**6,750**	1,009	1,009	1,009	1,009
6,750	**6,800**	1,016	1,016	1,016	1,016
6,800	**6,850**	1,024	1,024	1,024	1,024
6,850	**6,900**	1,031	1,031	1,031	1,031
6,900	**6,950**	1,039	1,039	1,039	1,039
6,950	**7,000**	1,046	1,046	1,046	1,046
7,000					
7,000	**7,050**	1,054	1,054	1,054	1,054
7,050	**7,100**	1,061	1,061	1,061	1,061
7,100	**7,150**	1,069	1,069	1,069	1,069
7,150	**7,200**	1,076	1,076	1,076	1,076
7,200	**7,250**	1,084	1,084	1,084	1,084
7,250	**7,300**	1,091	1,091	1,091	1,091
7,300	**7,350**	1,099	1,099	1,099	1,099
7,350	**7,400**	1,106	1,106	1,106	1,106
7,400	**7,450**	1,114	1,114	1,114	1,114
7,450	**7,500**	1,121	1,121	1,121	1,121
7,500	**7,550**	1,129	1,129	1,129	1,129
7,550	**7,600**	1,136	1,136	1,136	1,136
7,600	**7,650**	1,144	1,144	1,144	1,144
7,650	**7,700**	1,151	1,151	1,151	1,151
7,700	**7,750**	1,159	1,159	1,159	1,159
7,750	**7,800**	1,166	1,166	1,166	1,166
7,800	**7,850**	1,174	1,174	1,174	1,174
7,850	**7,900**	1,181	1,181	1,181	1,181
7,900	**7,950**	1,189	1,189	1,189	1,189
7,950	**8,000**	1,196	1,196	1,196	1,196

If 1040A, line 19, OR 1040EZ, line 5 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
8,000					
8,000	**8,050**	1,204	1,204	1,204	1,204
8,050	**8,100**	1,211	1,211	1,211	1,211
8,100	**8,150**	1,219	1,219	1,219	1,219
8,150	**8,200**	1,226	1,226	1,226	1,226
8,200	**8,250**	1,234	1,234	1,234	1,234
8,250	**8,300**	1,241	1,241	1,241	1,241
8,300	**8,350**	1,249	1,249	1,249	1,249
8,350	**8,400**	1,256	1,256	1,256	1,256
8,400	**8,450**	1,264	1,264	1,264	1,264
8,450	**8,500**	1,271	1,271	1,271	1,271
8,500	**8,550**	1,279	1,279	1,279	1,279
8,550	**8,600**	1,286	1,286	1,286	1,286
8,600	**8,650**	1,294	1,294	1,294	1,294
8,650	**8,700**	1,301	1,301	1,301	1,301
8,700	**8,750**	1,309	1,309	1,309	1,309
8,750	**8,800**	1,316	1,316	1,316	1,316
8,800	**8,850**	1,324	1,324	1,324	1,324
8,850	**8,900**	1,331	1,331	1,331	1,331
8,900	**8,950**	1,339	1,339	1,339	1,339
8,950	**9,000**	1,346	1,346	1,346	1,346
9,000					
9,000	**9,050**	1,354	1,354	1,354	1,354
9,050	**9,100**	1,361	1,361	1,361	1,361
9,100	**9,150**	1,369	1,369	1,369	1,369
9,150	**9,200**	1,376	1,376	1,376	1,376
9,200	**9,250**	1,384	1,384	1,384	1,384
9,250	**9,300**	1,391	1,391	1,391	1,391
9,300	**9,350**	1,399	1,399	1,399	1,399
9,350	**9,400**	1,406	1,406	1,406	1,406
9,400	**9,450**	1,414	1,414	1,414	1,414
9,450	**9,500**	1,421	1,421	1,421	1,421
9,500	**9,550**	1,429	1,429	1,429	1,429
9,550	**9,600**	1,436	1,436	1,436	1,436
9,600	**9,650**	1,444	1,444	1,444	1,444
9,650	**9,700**	1,451	1,451	1,451	1,451
9,700	**9,750**	1,459	1,459	1,459	1,459
9,750	**9,800**	1,466	1,466	1,466	1,466
9,800	**9,850**	1,474	1,474	1,474	1,474
9,850	**9,900**	1,481	1,481	1,481	1,481
9,900	**9,950**	1,489	1,489	1,489	1,489
9,950	**10,000**	1,496	1,496	1,496	1,496
10,000					
10,000	**10,050**	1,504	1,504	1,504	1,504
10,050	**10,100**	1,511	1,511	1,511	1,511
10,100	**10,150**	1,519	1,519	1,519	1,519
10,150	**10,200**	1,526	1,526	1,526	1,526
10,200	**10,250**	1,534	1,534	1,534	1,534
10,250	**10,300**	1,541	1,541	1,541	1,541
10,300	**10,350**	1,549	1,549	1,549	1,549
10,350	**10,400**	1,556	1,556	1,556	1,556
10,400	**10,450**	1,564	1,564	1,564	1,564
10,450	**10,500**	1,571	1,571	1,571	1,571
10,500	**10,550**	1,579	1,579	1,579	1,579
10,550	**10,600**	1,586	1,586	1,586	1,586
10,600	**10,650**	1,594	1,594	1,594	1,594
10,650	**10,700**	1,601	1,601	1,601	1,601
10,700	**10,750**	1,609	1,609	1,609	1,609
10,750	**10,800**	1,616	1,616	1,616	1,616
10,800	**10,850**	1,624	1,624	1,624	1,624
10,850	**10,900**	1,631	1,631	1,631	1,631
10,900	**10,950**	1,639	1,639	1,639	1,639
10,950	**11,000**	1,646	1,646	1,646	1,646

If 1040A, line 19, OR 1040EZ, line 5 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
11,000					
11,000	**11,050**	1,654	1,654	1,654	1,654
11,050	**11,100**	1,661	1,661	1,661	1,661
11,100	**11,150**	1,669	1,669	1,669	1,669
11,150	**11,200**	1,676	1,676	1,676	1,676
11,200	**11,250**	1,684	1,684	1,684	1,684
11,250	**11,300**	1,691	1,691	1,691	1,691
11,300	**11,350**	1,699	1,699	1,699	1,699
11,350	**11,400**	1,706	1,706	1,706	1,706
11,400	**11,450**	1,714	1,714	1,714	1,714
11,450	**11,500**	1,721	1,721	1,721	1,721
11,500	**11,550**	1,729	1,729	1,729	1,729
11,550	**11,600**	1,736	1,736	1,736	1,736
11,600	**11,650**	1,744	1,744	1,744	1,744
11,650	**11,700**	1,751	1,751	1,751	1,751
11,700	**11,750**	1,759	1,759	1,759	1,759
11,750	**11,800**	1,766	1,766	1,766	1,766
11,800	**11,850**	1,774	1,774	1,774	1,774
11,850	**11,900**	1,781	1,781	1,781	1,781
11,900	**11,950**	1,789	1,789	1,789	1,789
11,950	**12,000**	1,796	1,796	1,796	1,796
12,000					
12,000	**12,050**	1,804	1,804	1,804	1,804
12,050	**12,100**	1,811	1,811	1,811	1,811
12,100	**12,150**	1,819	1,819	1,819	1,819
12,150	**12,200**	1,826	1,826	1,826	1,826
12,200	**12,250**	1,834	1,834	1,834	1,834
12,250	**12,300**	1,841	1,841	1,841	1,841
12,300	**12,350**	1,849	1,849	1,849	1,849
12,350	**12,400**	1,856	1,856	1,856	1,856
12,400	**12,450**	1,864	1,864	1,864	1,864
12,450	**12,500**	1,871	1,871	1,871	1,871
12,500	**12,550**	1,879	1,879	1,879	1,879
12,550	**12,600**	1,886	1,886	1,886	1,886
12,600	**12,650**	1,894	1,894	1,894	1,894
12,650	**12,700**	1,901	1,901	1,901	1,901
12,700	**12,750**	1,909	1,909	1,909	1,909
12,750	**12,800**	1,916	1,916	1,916	1,916
12,800	**12,850**	1,924	1,924	1,924	1,924
12,850	**12,900**	1,931	1,931	1,931	1,931
12,900	**12,950**	1,939	1,939	1,939	1,939
12,950	**13,000**	1,946	1,946	1,946	1,946
13,000					
13,000	**13,050**	1,954	1,954	1,954	1,954
13,050	**13,100**	1,961	1,961	1,961	1,961
13,100	**13,150**	1,969	1,969	1,969	1,969
13,150	**13,200**	1,976	1,976	1,976	1,976
13,200	**13,250**	1,984	1,984	1,984	1,984
13,250	**13,300**	1,991	1,991	1,991	1,991
13,300	**13,350**	1,999	1,999	1,999	1,999
13,350	**13,400**	2,006	2,006	2,006	2,006
13,400	**13,450**	2,014	2,014	2,014	2,014
13,450	**13,500**	2,021	2,021	2,021	2,021
13,500	**13,550**	2,029	2,029	2,029	2,029
13,550	**13,600**	2,036	2,036	2,036	2,036
13,600	**13,650**	2,044	2,044	2,044	2,044
13,650	**13,700**	2,051	2,051	2,051	2,051
13,700	**13,750**	2,059	2,059	2,059	2,059
13,750	**13,800**	2,066	2,066	2,066	2,066
13,800	**13,850**	2,074	2,074	2,074	2,074
13,850	**13,900**	2,081	2,081	2,081	2,081
13,900	**13,950**	2,089	2,089	2,089	2,089
13,950	**14,000**	2,096	2,096	2,096	2,096

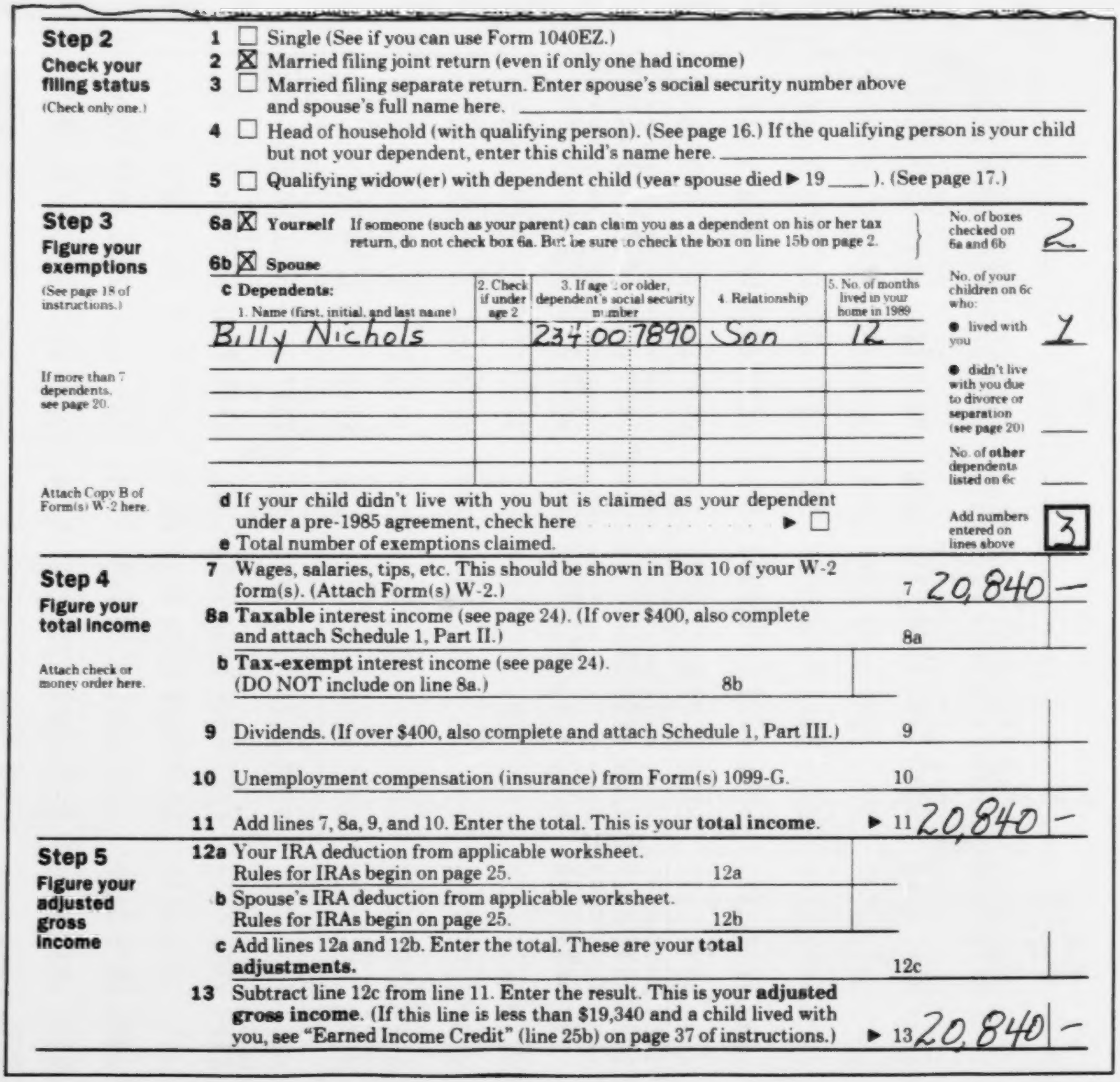
* This column must also be used by a qualifying widow(er).

Continued on next page

Example

Sam and Mary Nichols file Form 1040A jointly. They claim their son, Billy, age 2 (SSN 234–00–7890), on their return. Sam, the only wage earner, earned $20,840 and had $1,550 withheld for tax. The Tax Table shows that their tax should be $1,444. They do not qualify for the earned income credit because Sam's wages are over $19,340. Notice how the Nicholses report this information on lines 1 through 26 of their return (Exhibits 2 and 3).

Exhibit 2



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☒ **Spouse**

No. of boxes checked on 6a and 6b 2

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Billy Nichols		234 00 7890	Son	12

No. of your children on 6c who:
● lived with you 1
● didn't live with you due to divorce or separation (see page 20) ____
No. of other dependents listed on 6c ____

If more than 7 dependents, see page 20.

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above 3

Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	20,840 —
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b	
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶	11	20,840 —

Step 5
Figure your adjusted gross income

12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12a	
b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12b	
c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶	13	20,840 —

Exhibit 3

1989 Form 1040A

Step 6	**14**	Enter the amount from line 13.	14	20,840 –
	15a	Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked**	▶ 15a	☐
	b	If someone (such as your parent) can claim you as a dependent, check here	▶ 15b	☐
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here	▶ 15c	☐
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	5,200 –
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	15,640 –
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	6,000 –
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19	9,640 –
Step 7		**If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.** **Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.		
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20	1,444 –
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21	
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)	22	1,444 –
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23	
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.**	▶ 24	1,444 –
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐.) 25a 1,550 –		
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b		
	26	Add lines 25a and 25b. Enter the total. These are your **total payments.**	▶ 26	1,550 –
Step 8	**27**	If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**.	27	
Figure your refund or amount you owe	**28**	If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it.	28	

Step 9
Sign your return
(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature x | Date | Your occupation

Spouse's signature (if joint return, both must sign) x | Date | Spouse's occupation

Paid preparer's use only

Preparer's signature x | Date | Preparer's social security no.

Firm's name (or yours if self-employed) | Employer identification no.

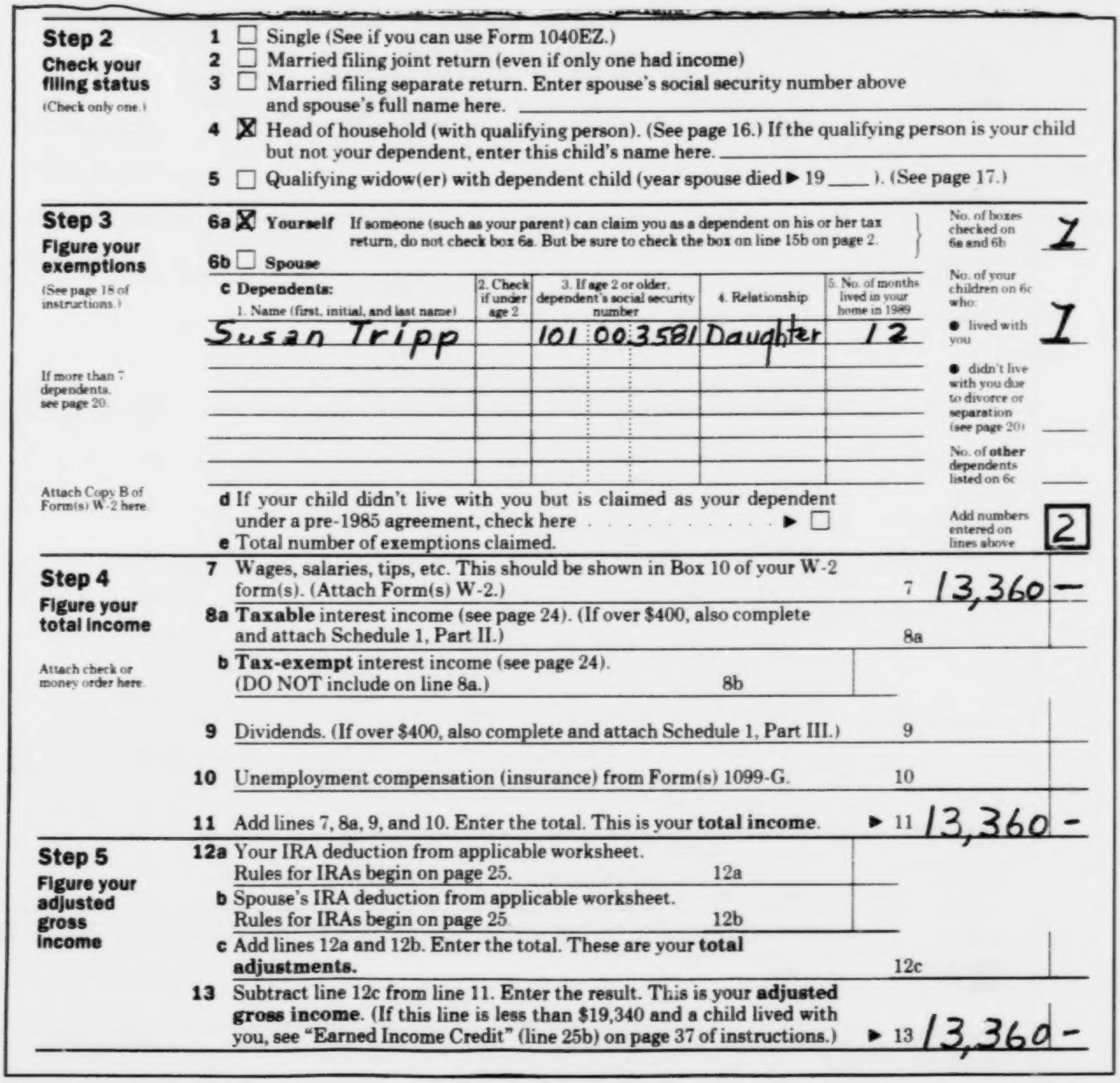
PROOF COPY

Address and ZIP code | Check if self-employed ☐

Example

Linda Tripp files as head of household and claims her daughter Susan as a dependent. She had $520 in tax withheld, and her earned income credit worksheet shows a credit of $598. Susan's social security number is 101-00-3581. In the Tax Table column for head of household, she sees that the tax on her taxable income of $4,810 is $724. Linda's Form 1040A, through Step 7, is shown in Exhibits 4 and 5.

Exhibit 4



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☒ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Susan Tripp		101 00 3581	Daughter	12

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 20) ______

No. of other dependents listed on 6c ______

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above: 2

Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	13,360 —
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	13,360 -

Step 5
Figure your adjusted gross income

12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a		
b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b		
c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income.** (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	13,360 -

Exhibit 5

1989 **Form 1040A**

Step 6

14 Enter the amount from line 13. 14 13,360 -

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

Figure your standard deduction,

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16 4,550 -

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17 8,810 -

exemption amount, and

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18 4,000 -

taxable income

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19 4,810 -

If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

20 Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615 20 724 -

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) 22 724 -

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). 23

24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24 724 -

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a 520 -

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b 598 -

26 Add lines 25a and 25b. Enter the total. These are your **total payments**. ▶ 26 1,118 -

Step 8

Figure your refund or amount you owe

27 If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**. 27

28 If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it. 28

Step 9

Sign your return

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Date Your occupation

x

Spouse's signature (if joint return, both must sign) Date Spouse's occupation

x

Paid preparer's use only

Preparer's signature Date Preparer's social security no.

x

Firm's name (or yours if self-employed) Employer identification no.

PROOF COPY

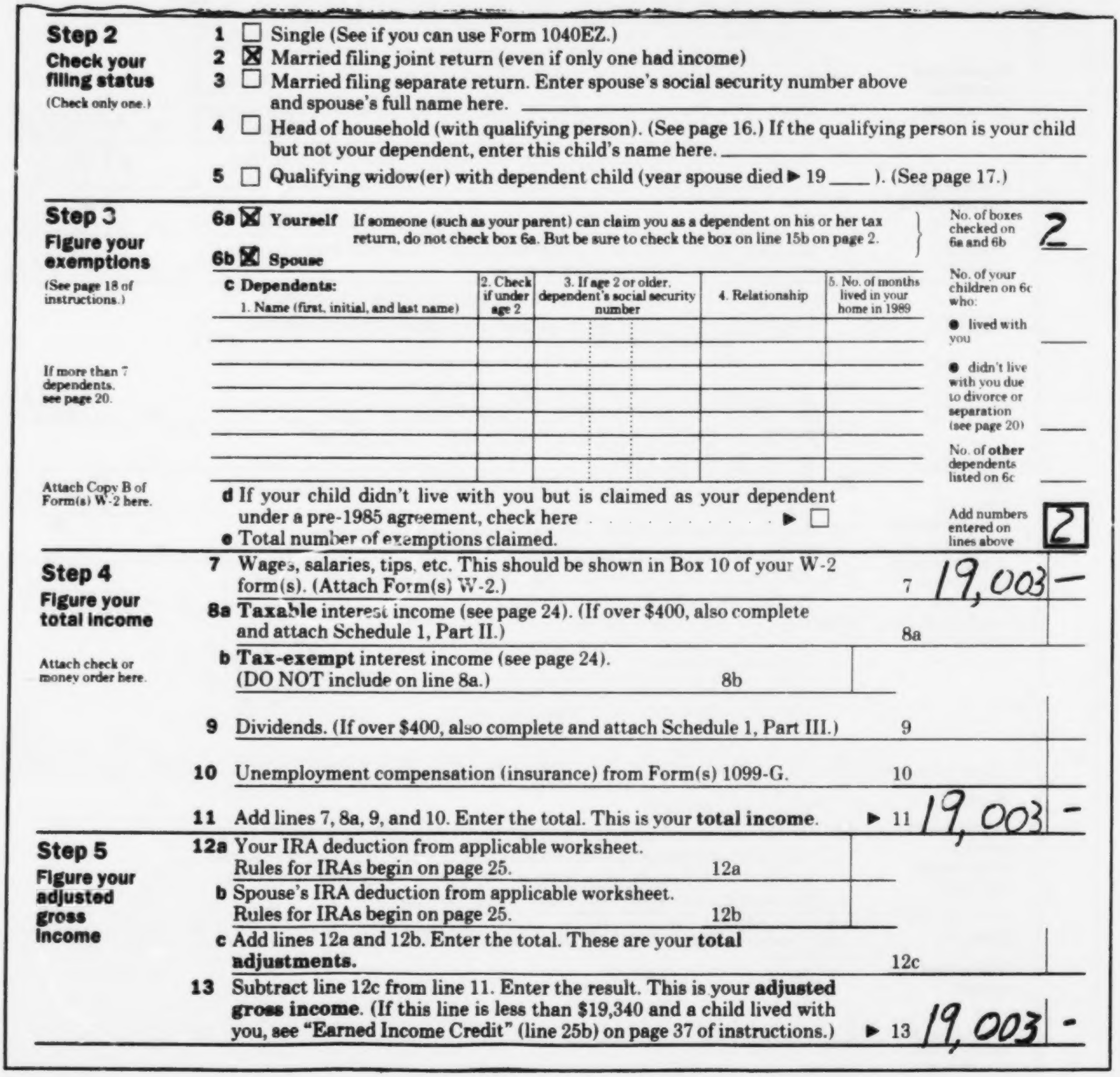
Address and ZIP code

Check if self-employed ☐

Example

Larry and Donna Dorsey are filing a joint return for 1989. Both are under age 65 and they have no dependents. Larry, who has been blind since birth, earned $9,865 and had $468 federal income tax withheld. Donna earned $9,138 and had $962 withheld. The Tax Table shows their tax should be $1,384. The Dorsey's Form 1040A, through Step 7, is shown in Exhibits 6 and 7.

Exhibit 6



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☒ **Spouse**

No. of boxes checked on 6a and 6b 2

c **Dependents:** 1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 20) ______

No. of other dependents listed on 6c ______

If more than 7 dependents, see page 20.

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above 2

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7 19,003 -
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11 19,003 -

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13 19,003 -

Exhibit 7

1989 Form 1040A

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14 19,003 -

15a Check if: ☐ **You were 65 or older** ☒ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked** ▶ 15a 1

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16 5,800 -

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17 13,203 -

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18 4,000 -

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19 9,203 -

If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

20 Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615 20 1,384 -

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) 22 1,384 -

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). 23

24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24 1,384 -

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a 1,430 -

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b

26 Add lines 25a and 25b. Enter the total. These are your **total payments**. ▶ 26 1,430 -

Step 8

Figure your refund or amount you owe

27 If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**. 27

28 If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it. 28

Step 9

Sign your return

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature x — Date — Your occupation

Spouse's signature (if joint return, both must sign) x — Date — Spouse's occupation

Paid preparer's use only

Preparer's signature x — Date — Preparer's social security no.

Firm's name (or yours if self-employed) — Employer identification no.

Address and ZIP code — Check if self-employed ☐

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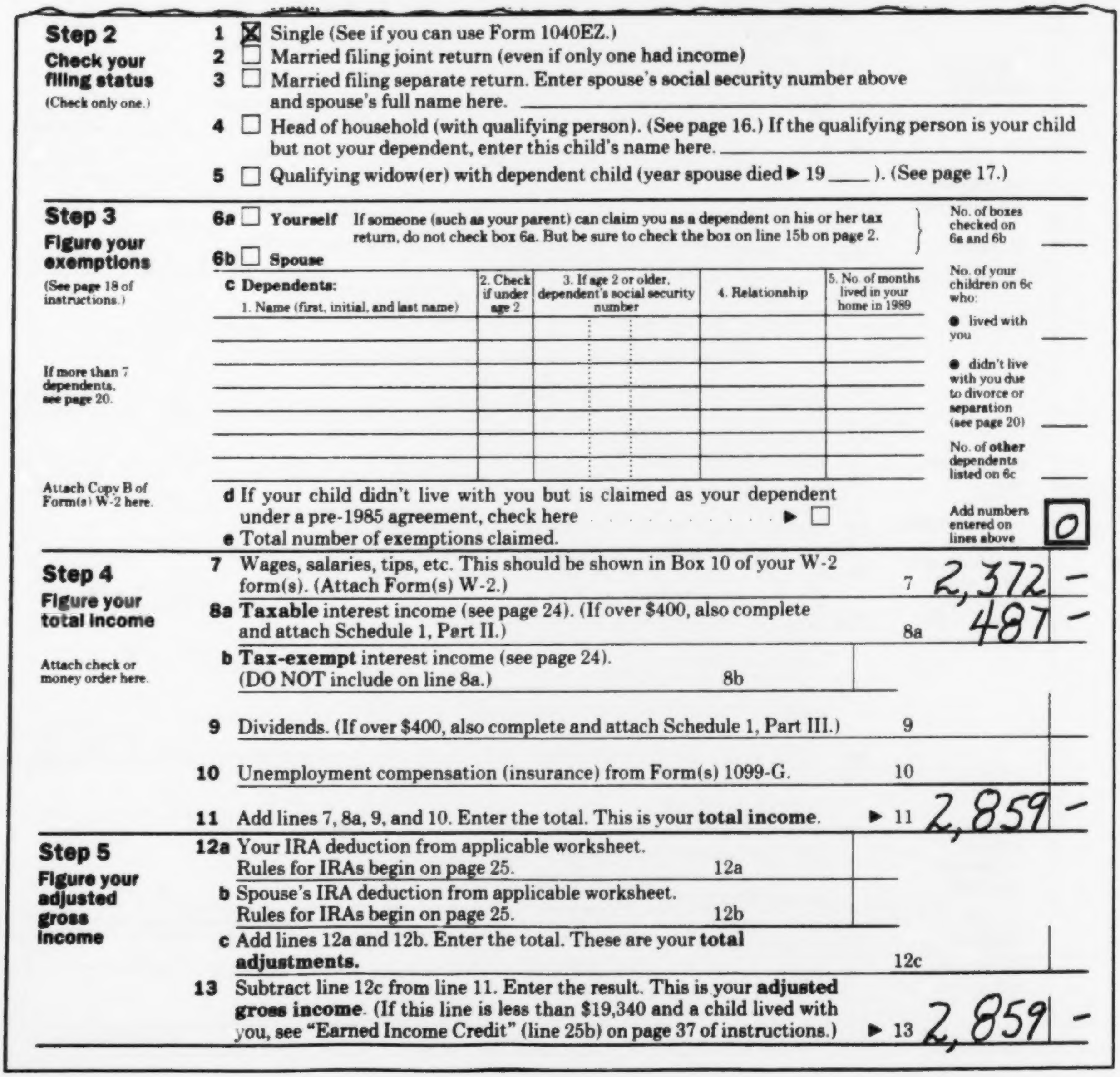
Example

Jim Bush is 16 and a full-time student. He earned $2,372 and received interest income of $487. Federal income tax withholding was $150. Jim's parents claimed him as an exemption on their income tax return. Jim's standard deduction is $2,372. His tax is $73. His Form 1040A, through Step 7, is shown in Exhibits 8 and 9. Assume Part II of Schedule 1 was properly completed.

Exhibit 8



Step 2
Check your filing status
(Check only one.)

1 ☒ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 20) ______

No. of other dependents listed on 6c ______

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above 0

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7 2,372 –
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a 487 –
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11 2,859 –

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13 2,859 –

Exhibit 9

1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14	2,859 —
	15a	Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked** ▶ 15a		☐
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 15b		☒
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c		☐
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	2,372 —
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	487 —
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	-0- —
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.** ▶	19	487 —
Step 7		**If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.** **Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.		
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20	73 —
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21	
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)	22	73 —
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23	
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶	24	73 —
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a 150 —		
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b		
	26	Add lines 25a and 25b. Enter the total. These are your **total payments.** ▶	26	150 —

Exercise 1

Use the Tax Table to find the correct tax in the following situations.

a. Single taxpayer, taxable income of $18,654. ____________
b. Head of household, taxable income of $14,950. ____________
c. Married filing separately, taxable income of $16,923. ____________
d. Married filing jointly, taxable income of $13,273. ____________

Child's income taxable at parents' rates. If a child is under 14 at the end of the year and has more than $1,000 of investment income for the year, his or her investment income (interest, dividends, etc.) may be taxed at the parents' highest tax rate. This is covered in Module IV, Lesson 6.

Supplemental Medicare Premium

* As a volunteer, you may help taxpayers who have to pay a supplemental Medicare premium. A taxpayer who was eligible for Medicare Part A (hospital insurance) by June 30, 1989, and has not paid any monthly premiums may

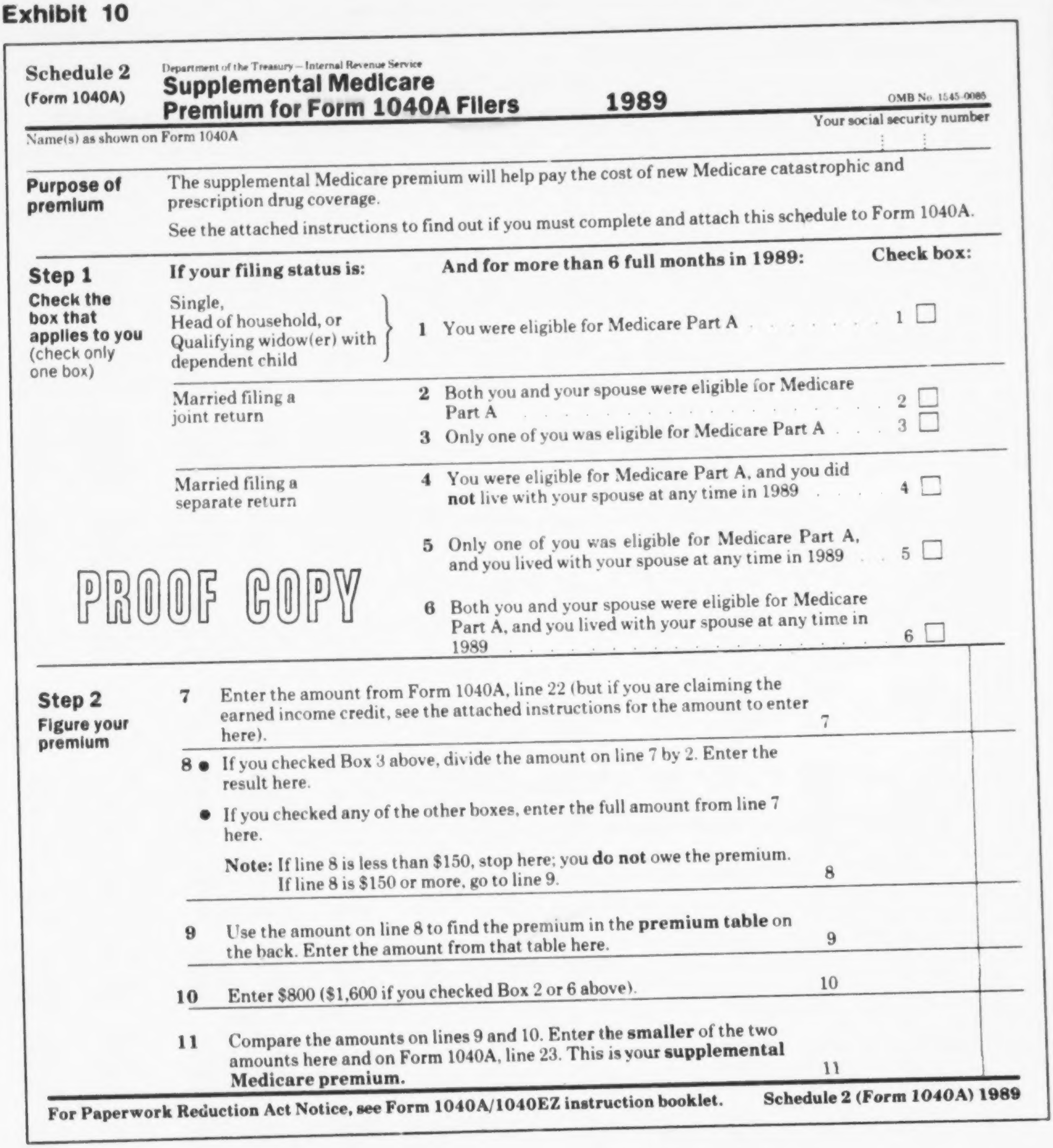
owe a supplemental Medicare premium if his or her income tax is at least $150.

Caution: As this publication was being prepared for print, both Houses of Congress voted to repeal the supplemental Medicare premium. For additional information, see page v at the beginning of this book.

*

The supplemental premium is figured on Schedule 2 of Form 1040A (see Exhibit 10).

Exhibit 10



Schedule 2
(Form 1040A)

Department of the Treasury – Internal Revenue Service

Supplemental Medicare Premium for Form 1040A Filers

1989

OMB No. 1545-0085

Name(s) as shown on Form 1040A

Your social security number

Purpose of premium

The supplemental Medicare premium will help pay the cost of new Medicare catastrophic and prescription drug coverage.

See the attached instructions to find out if you must complete and attach this schedule to Form 1040A.

Step 1
Check the box that applies to you (check only one box)

If your filing status is:	And for more than 6 full months in 1989:	Check box:
Single, Head of household, or Qualifying widow(er) with dependent child	1 You were eligible for Medicare Part A	1 ☐
Married filing a joint return	2 Both you and your spouse were eligible for Medicare Part A	2 ☐
	3 Only one of you was eligible for Medicare Part A	3 ☐
Married filing a separate return	4 You were eligible for Medicare Part A, and you did **not** live with your spouse at any time in 1989	4 ☐
	5 Only one of you was eligible for Medicare Part A, and you lived with your spouse at any time in 1989	5 ☐
	6 Both you and your spouse were eligible for Medicare Part A, and you lived with your spouse at any time in 1989	6 ☐

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Step 2
Figure your premium

7	Enter the amount from Form 1040A, line 22 (but if you are claiming the earned income credit, see the attached instructions for the amount to enter here).	7
8	• If you checked Box 3 above, divide the amount on line 7 by 2. Enter the result here. • If you checked any of the other boxes, enter the full amount from line 7 here. **Note:** If line 8 is less than $150, stop here; you **do not** owe the premium. If line 8 is $150 or more, go to line 9.	8
9	Use the amount on line 8 to find the premium in the **premium table** on the back. Enter the amount from that table here.	9
10	Enter $800 ($1,600 if you checked Box 2 or 6 above).	10
11	Compare the amounts on lines 9 and 10. Enter the **smaller** of the two amounts here and on Form 1040A, line 23. This is your **supplemental Medicare premium.**	11

For Paperwork Reduction Act Notice, see Form 1040A/1040EZ instruction booklet. **Schedule 2 (Form 1040A) 1989**

Exhibit 11

1989 Schedule 2 (Form 1040A)

Premium Table for—1989

In the "At least-But less than" column below, find the bracket that includes the amount you entered on line 8 of Schedule 2. Then read across and find the premium. Enter the premium on Schedule 2, line 9.

If line 8, Schedule 2 is:		Then, enter on line 9:	If line 8, Schedule 2 is:		Then, enter on line 9:	If line 8, Schedule 2 is:		Then, enter on line 9:	If line 8, Schedule 2 is:		Then, enter on line 9:
At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$0	$150	**$0**	$2,750	$2,800	**$416**	$5,400	$5,450	**$814**	$8,050	$8,100	**$1,211**
150	200	**22**	2,800	2,850	**424**	5,450	5,500	**821**	8,100	8,150	**1,219**
200	250	**30**	2,850	2,900	**431**	5,500	5,550	**829**	8,150	8,200	**1,226**
250	300	**38**	2,900	2,950	**439**	5,550	5,600	**836**	8,200	8,250	**1,234**
300	350	**46**	2,950	3,000	**446**	5,600	5,650	**844**	8,250	8,300	**1,241**
350	400	**54**	3,000	3,050	**454**	5,650	5,700	**851**	8,300	8,350	**1,249**
400	450	**62**	3,050	3,100	**461**	5,700	5,750	**859**	8,350	8,400	**1,256**
450	500	**70**	3,100	3,150	**469**	5,750	5,800	**866**	8,400	8,450	**1,264**
500	550	**78**	3,150	3,200	**476**	5,800	5,850	**874**	8,450	8,500	**1,271**
550	600	**86**	3,200	3,250	**484**	5,850	5,900	**881**	8,500	8,550	**1,279**
600	650	**94**	3,250	3,300	**491**	5,900	5,950	**889**	8,550	8,600	**1,286**
650	700	**101**	3,300	3,350	**499**	5,950	6,000	**896**	8,600	8,650	**1,294**
700	750	**109**	3,350	3,400	**506**	6,000	6,050	**904**	8,650	8,700	**1,301**
750	800	**116**	3,400	3,450	**514**	6,050	6,100	**911**	8,700	8,750	**1,309**
800	850	**124**	3,450	3,500	**521**	6,100	6,150	**919**	8,750	8,800	**1,316**
850	900	**131**	3,500	3,550	**529**	6,150	6,200	**926**	8,800	8,850	**1,324**
900	950	**139**	3,550	3,600	**536**	6,200	6,250	**934**	8,850	8,900	**1,331**
950	1,000	**146**	3,600	3,650	**544**	6,250	6,300	**941**	8,900	8,950	**1,339**
1,000	1,050	**154**	3,650	3,700	**551**	6,300	6,350	**949**	8,950	9,000	**1,346**
1,050	1,100	**161**	3,700	3,750	**559**	6,350	6,400	**956**	9,000	9,050	**1,354**
1,100	1,150	**169**	3,750	3,800	**566**	6,400	6,450	**964**	9,050	9,100	**1,361**
1,150	1,200	**176**	3,800	3,850	**574**	6,450	6,500	**971**	9,100	9,150	**1,369**
1,200	1,250	**184**	3,850	3,900	**581**	6,500	6,550	**979**	9,150	9,200	**1,376**
1,250	1,300	**191**	3,900	3,950	**589**	6,550	6,600	**986**	9,200	9,250	**1,384**
1,300	1,350	**199**	3,950	4,000	**596**	6,600	6,650	**994**	9,250	9,300	**1,391**
1,350	1,400	**206**	4,000	4,050	**604**	6,650	6,700	**1,001**	9,300	9,350	**1,399**
1,400	1,450	**214**	4,050	4,100	**611**	6,700	6,750	**1,009**	9,350	9,400	**1,406**
1,450	1,500	**221**	4,100	4,150	**619**	6,750	6,800	**1,016**	9,400	9,450	**1,414**
1,500	1,550	**229**	4,150	4,200	**626**	6,800	6,850	**1,024**	9,450	9,500	**1,421**
1,550	1,600	**236**	4,200	4,250	**634**	6,850	6,900	**1,031**	9,500	9,550	**1,429**
1,600	1,650	**244**	4,250	4,300	**641**	6,900	6,950	**1,039**	9,550	9,600	**1,436**
1,650	1,700	**251**	4,300	4,350	**649**	6,950	7,000	**1,046**	9,600	9,650	**1,444**
1,700	1,750	**259**	4,350	4,400	**656**	7,000	7,050	**1,054**	9,650	9,700	**1,451**
1,750	1,800	**266**	4,400	4,450	**664**	7,050	7,100	**1,061**	9,700	9,750	**1,459**
1,800	1,850	**274**	4,450	4,500	**671**	7,100	7,150	**1,069**	9,750	9,800	**1,466**
1,850	1,900	**281**	4,500	4,550	**679**	7,150	7,200	**1,076**	9,800	9,850	**1,474**
1,900	1,950	**289**	4,550	4,600	**686**	7,200	7,250	**1,084**	9,850	9,900	**1,481**
1,950	2,000	**296**	4,600	4,650	**694**	7,250	7,300	**1,091**	9,900	9,950	**1,489**
2,000	2,050	**304**	4,650	4,700	**701**	7,300	7,350	**1,099**	9,950	10,000	**1,496**
2,050	2,100	**311**	4,700	4,750	**709**	7,350	7,400	**1,106**	10,000	10,050	**1,504**
2,100	2,150	**319**	4,750	4,800	**716**	7,400	7,450	**1,114**	10,050	10,100	**1,511**
2,150	2,200	**326**	4,800	4,850	**724**	7,450	7,500	**1,121**	10,100	10,150	**1,519**
2,200	2,250	**334**	4,850	4,900	**731**	7,500	7,550	**1,129**	10,150	10,200	**1,526**
2,250	2,300	**341**	4,900	4,950	**739**	7,550	7,600	**1,136**	10,200	10,250	**1,534**
2,300	2,350	**349**	4,950	5,000	**746**	7,600	7,650	**1,144**	10,250	10,300	**1,541**
2,350	2,400	**356**	5,000	5,050	**754**	7,650	7,700	**1,151**	10,300	10,350	**1,549**
2,400	2,450	**364**	5,050	5,100	**761**	7,700	7,750	**1,159**	10,350	10,400	**1,556**
2,450	2,500	**371**	5,100	5,150	**769**	7,750	7,800	**1,166**	10,400	10,450	**1,564**
2,500	2,550	**379**	5,150	5,200	**776**	7,800	7,850	**1,174**	10,450	10,500	**1,571**
2,550	2,600	**386**	5,200	5,250	**784**	7,850	7,900	**1,181**	10,500	10,550	**1,579**
2,600	2,650	**394**	5,250	5,300	**791**	7,900	7,950	**1,189**	10,550	10,600	**1,586**
2,650	2,700	**401**	5,300	5,350	**799**	7,950	8,000	**1,196**	10,600	10,650	**1,594**
2,700	2,750	**409**	5,350	5,400	**806**	8,000	8,050	**1,204**	10,650	and over	**1,600**

You begin filling out Schedule 2 by checking one of the six boxes on the right side of the schedule, based on the taxpayer's filing status and individual circumstances.

You then go to line 7, which instructs you to enter the amount from line 22 of the taxpayer's Form 1040A. This is the tax after the child and dependent care credit, if any, has been subtracted. Line 7 also instructs you to subtract any earned income credit claimed on line 25b from the taxpayer's tax on line 22.

Line 8 instructs you to divide the amount on line 7 by 2 and enter the result if box 3 was checked. If box 3 was not checked, enter the amount from line 7 on line 8. If this amount is less than $150, the taxpayer does not owe a supplemental Medicare premium. Do not continue with the rest of the form. If line 8 is $150 or more, the taxpayer must complete the rest of Schedule 2.

If you checked box 1, 3, 4, or 5 for the taxpayer and the amount on line 8 is less than $5,350, enter in box 9 the amount from the table on the back of Schedule 2, corresponding to the line 8 amount. If line 8 is $5,350 or more, enter $800 on line 9 and also on line 23 of Form 1040A. This is the taxpayer's supplemental Medicare premium. Do not fill in the rest of Schedule 2.

If you checked box 2 or box 6 for the taxpayer and the amount on line 8 is less than $10,650, enter in line 9 the amount from the table on the back of Schedule 2, corresponding to the line 8 amount. If the amount on line 8 is $10,650 or more, enter $1,600 on line 9 and also on line 23 of Form 1040A.

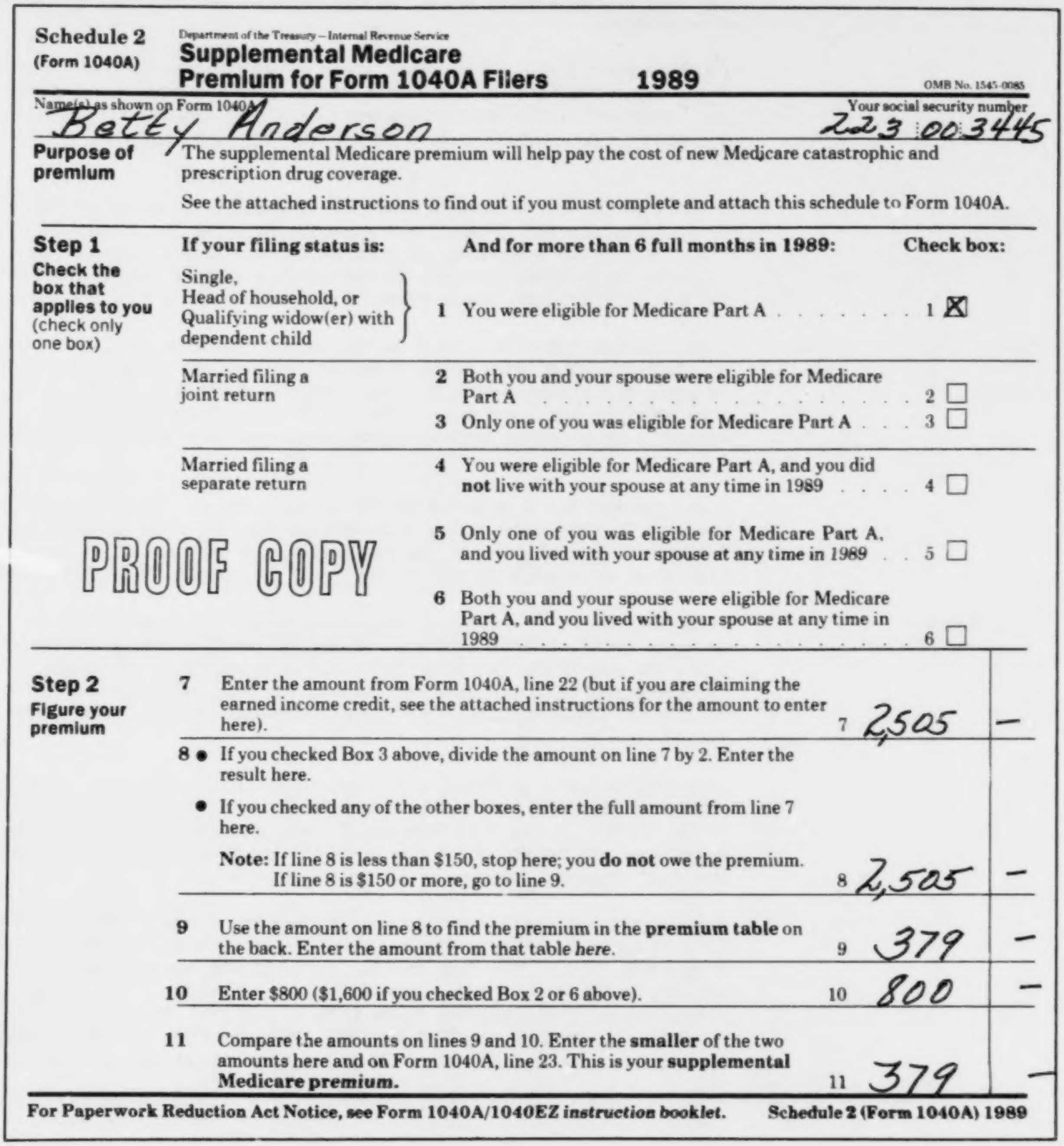
Example

Betty Anderson is 70 years old, single, and eligible for Medicare Part A coverage for all of 1989, although she paid no health insurance premiums during the year. Betty files Form 1040A because she does not itemize deductions and does not otherwise have to file Form 1040. Her tax on line 22 of Form 1040A is $2,505 (she claims no credits other than her withheld income tax).

Betty checks box 1 of Schedule 2, Form 1040A, because she is single and eligible for Medicare Part A. She enters the amount from line 22 of her Form 1040A, $2,505, on line 7 of Schedule 2. Betty also enters this amount on line 8, because she did not check box 3. Betty's tax of $2,505 is at least $150; she must, therefore, continue to fill out Schedule 2.

Betty goes on to line 9, because she checked box 1 earlier. Line 9 tells Betty to go to the table on the back of Schedule 2, if the amount on line 8 is less than $5,350. She finds that her tax of $2,505 lies between the amounts $2,500 and $2,550 in the first column of the table. On the right side of the column, Betty sees the figure $379 in bold print. This is her supplemental Medicare premium for 1989. She enters this amount on line 9 of Schedule 2 as well as on line 23 of her Form 1040A (see Exhibits 12 and 13).

Exhibit 12



Schedule 2 (Form 1040A)

Department of the Treasury – Internal Revenue Service

Supplemental Medicare Premium for Form 1040A Filers

1989

OMB No. 1545-0085

Name(s) as shown on Form 1040A: Betty Anderson

Your social security number: 223 00 3445

Purpose of premium The supplemental Medicare premium will help pay the cost of new Medicare catastrophic and prescription drug coverage.

See the attached instructions to find out if you must complete and attach this schedule to Form 1040A.

Step 1 Check the box that applies to you (check only one box)

If your filing status is:	And for more than 6 full months in 1989:	Check box:
Single, Head of household, or Qualifying widow(er) with dependent child	1 You were eligible for Medicare Part A	1 ☒
Married filing a joint return	2 Both you and your spouse were eligible for Medicare Part A	2 ☐
	3 Only one of you was eligible for Medicare Part A	3 ☐
Married filing a separate return	4 You were eligible for Medicare Part A, and you did **not** live with your spouse at any time in 1989	4 ☐
	5 Only one of you was eligible for Medicare Part A, and you lived with your spouse at any time in 1989	5 ☐
	6 Both you and your spouse were eligible for Medicare Part A, and you lived with your spouse at any time in 1989	6 ☐

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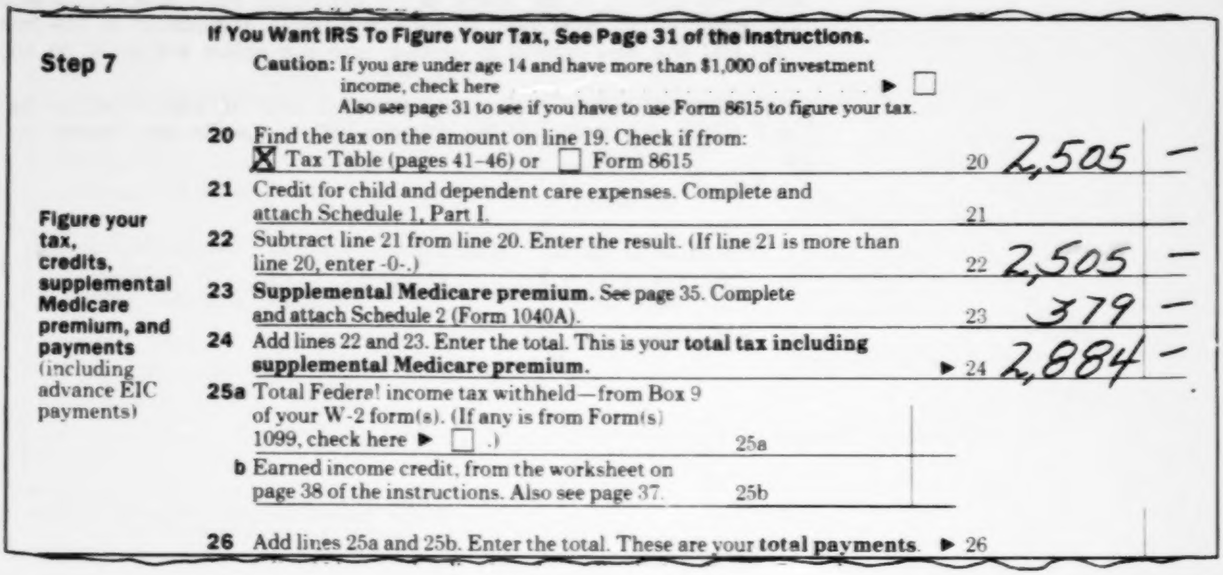
Step 2 Figure your premium

7	Enter the amount from Form 1040A, line 22 (but if you are claiming the earned income credit, see the attached instructions for the amount to enter here).	7	2,505 —
8	• If you checked Box 3 above, divide the amount on line 7 by 2. Enter the result here. • If you checked any of the other boxes, enter the full amount from line 7 here. **Note:** If line 8 is less than $150, stop here; you **do not** owe the premium. If line 8 is $150 or more, go to line 9.	8	2,505 —
9	Use the amount on line 8 to find the premium in the **premium table** on the back. Enter the amount from that table *here*.	9	379 —
10	Enter $800 ($1,600 if you checked Box 2 or 6 above).	10	800 —
11	Compare the amounts on lines 9 and 10. Enter the **smaller** of the two amounts here and on Form 1040A, line 23. This is your **supplemental Medicare premium.**	11	379 —

For Paperwork Reduction Act Notice, see Form 1040A/1040EZ *instruction booklet*. **Schedule 2 (Form 1040A) 1989**

Exhibit 13



If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20	2,505 —
21	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21	
22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)	22	2,505 —
23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23	379 —
24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.**	▶ 24	2,884 —
25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .)	25a	
b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37.	25b	
26	Add lines 25a and 25b. Enter the total. These are your **total payments.**	▶ 26	

As a result of having to pay a supplemental Medicare premium, some taxpayers may owe estimated tax. This topic is discussed in Module IV, Lesson 7. For more information on the supplemental Medicare premium, see Publication 934, *Supplemental Medicare Premium.*

Advance Earned Income Credit

An employee who expects to qualify for the earned income credit (EIC) for 1990 can choose to get the credit in advance. To do this, the employee completes Form W–5, *Earned Income Credit Advance Payment Certificate,* and gives it to his or her employer. If the employee is eligible, the employer must then include the advance EIC in the employee's regular paychecks during the year. At the end of the year, the employer reports the advance credit in box 7 of the employee's Form W–2, *Wage and Tax Statement.*

An employee who receives advance EIC ***must*** file a tax return for that year.

To qualify for the advance EIC, the employee must answer "Yes" to all questions on the earned income credit checklist, which is provided with Form W–5. Once the employee gives Form W–5 to the employer, it stays in effect through December 31 of that year. The employee must file a new Form W–5 each year to get the advance EIC. If changed circumstances make the employee ineligible for the EIC, or if the employee's spouse also files Form W–5 with an employer, the employee has until 10 days after the change to revoke the previous Form W–5 or to file a new one showing that the spouse also filed a Form W–5.

The employee can choose not to file Form W–5 and not to get the EIC in advance. He or she can still receive the EIC when the return is filed.

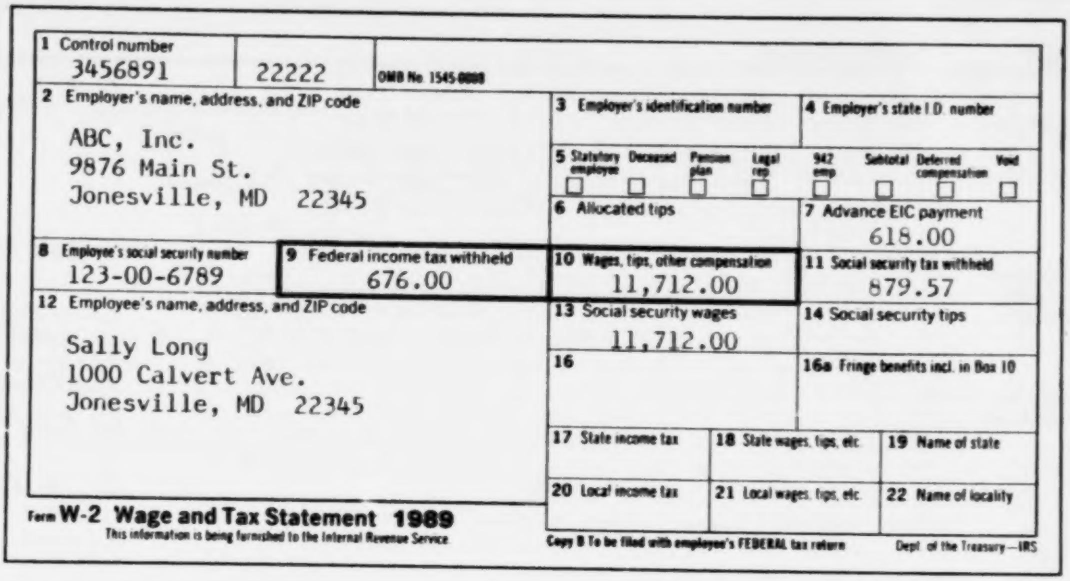
If the taxpayer received advance EIC for 1989 (as shown in box 7, Form W–2), include it in the total tax on line 22 of Form 1040A. In the space to the left of the line 22 entry space, write "AEIC" and show the amount of the payment.

Example

Sally Long received the Form W–2 reprinted here (see Exhibit 14). Sally's son is her dependent, so she files as head of household and claims two exemptions on her Form 1040A. The exemptions lower her taxable income by $4,000 (line 18). On line 22 she adds the advance EIC she received (as reported on her Form W-2) to the total tax, and she writes "AEIC" and shows the amount in the space to the left of the entry space for that line. She uses the EIC worksheet in the Form 1040A Instructions to see how much EIC she was entitled to receive, and she enters the result on line 25b.

Sally's Form 1040A is shown as Exhibits 15 and 16. Notice that on Sally's Form 1040A she must add the advance EIC to the tax she reports on line 22.

Exhibit 14



1 Control number 3456891	22222	OMB No. 1545-0008

2 Employer's name, address, and ZIP code

ABC, Inc.
9876 Main St.
Jonesville, MD 22345

3 Employer's identification number

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment 618.00

8 Employee's social security number 123-00-6789

9 Federal income tax withheld 676.00

10 Wages, tips, other compensation 11,712.00

11 Social security tax withheld 879.57

12 Employee's name, address, and ZIP code

Sally Long
1000 Calvert Ave.
Jonesville, MD 22345

13 Social security wages 11,712.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

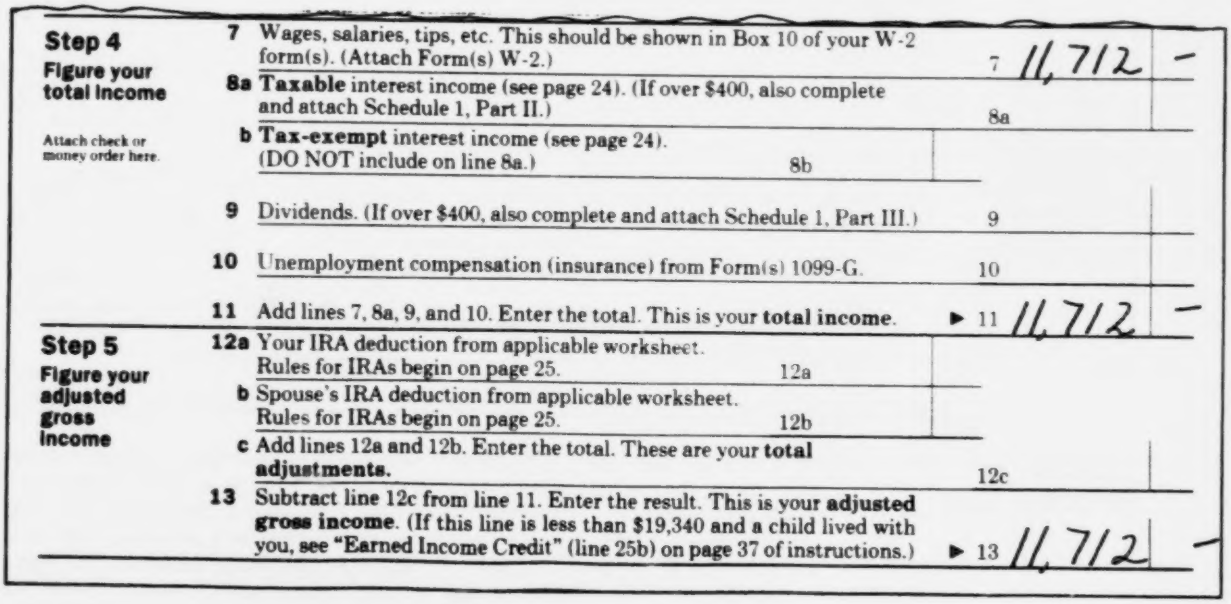
17 State income tax	18 State wages, tips, etc.	19 Name of state
20 Local income tax	21 Local wages, tips, etc.	22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 15



Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7 11,712 —

8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a

b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b

9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9

10 Unemployment compensation (insurance) from Form(s) 1099-G. 10

11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income.** ▶ 11 11,712 —

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a

b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b

c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c

13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13 11,712 —

Exhibit 16

1989 Form 1040A

Step 6	**14**	Enter the amount from line 13.	14 11,712 –
	15a	Check if: ☐ **You were** 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a ☐	
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐	
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐	
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16 4,550 –
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17 7,162 –
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18 4,000 –
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19 3,162 –
		If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.	
Step 7		**Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.	
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20 476 –
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20 enter -0-.) AEIC = $618	22 1,094 –
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.**	▶ 24 1,094 –
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a 676 –	
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b 763 –	
	26	Add lines 25a and 25b. Enter the total. These are your **total payments.**	▶ 26 1,439 –

Refund or Balance Due

At this point you are ready to see whether the taxpayer will get a refund or owe more tax. In the example of Sally Long, line 26 is more than line 24, so a refund is due. If the reverse were true, she would owe more tax. Remind the taxpayers to file and pay on time, so interest and penalties will not be charged for filing or paying late. Taxpayers can avoid penalties for late filing by sending in their returns on time, even if they cannot send in their full tax payment. If the amount due is $500 or more, the taxpayer may be subject to a penalty.

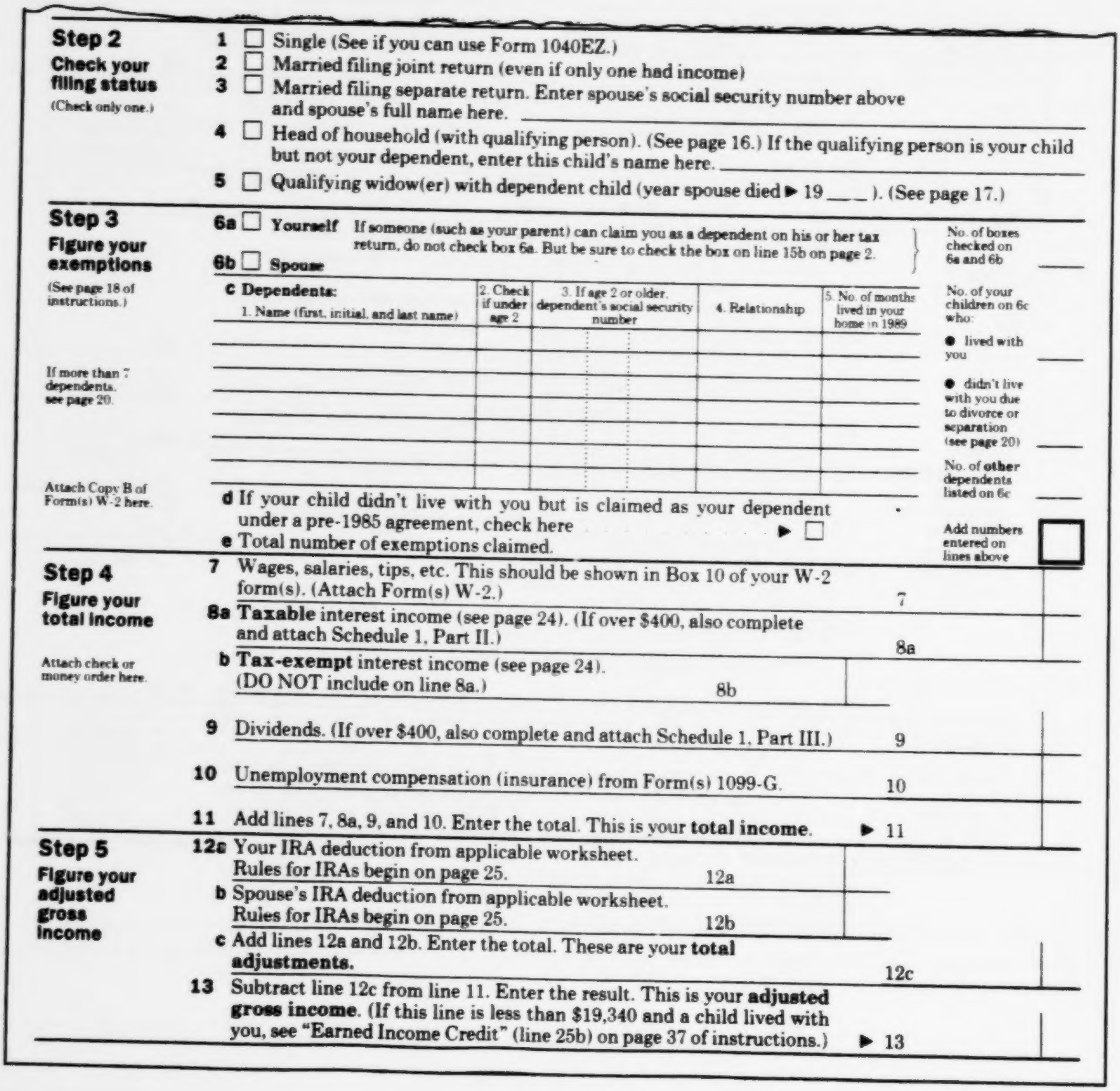
You may receive inquiries about how people can make voluntary contributions to reduce the public debt. If a taxpayer wants to contribute, he or she should make the contribution payable to "Bureau of the Public Debt," and may enclose it in the tax return envelope. Subject to the limits on charitable contributions, the taxpayer can deduct this contribution on the 1990 tax return if he or she files Form 1040 and itemizes deductions. Remind the taxpayer not to combine the contribution with any payment of tax due, which should be made payable to "Internal Revenue Service."

Exercise 2

Complete Form 1040A (including the refund or balance due lines) for the following taxpayers.

a. Ron Wilson, social security number 365-00-0011, is married to Sue Wilson, social security number 111-00-0111, files separately, and claims his dependent son, Ron, Jr., age 10, social security number 122-00-2222, who lived with him all year. Sue Wilson moved out of their home on September 1. Ron's wages were $18,334, and he had interest income of $75. Federal tax withholding was $1,880 (see Exhibits 17 and 18).

Exhibit 17



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 20) ____

No. of other dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7 ____
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a ____
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b ____
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9 ____
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10 ____
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11 ____

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a ____
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b ____
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c ____
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13 ____

Exhibit 18

1989 Form 1040A

Step 6

14 Enter the amount from line 13. 14

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here . . . . ▶ 15b ☐

Figure your standard deduction,

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here . . . ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16

exemption amount, and

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

taxable income

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.** ▶ 19

Step 7

If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Caution: If you are under age 14 and have more than $1,000 of investment income, check here . . . . ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

20 Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615 20

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) 22

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). 23

24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b

26 Add lines 25a and 25b. Enter the total. These are your **total payments.** ▶ 26

Step 8

Figure your refund or amount you owe

27 If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund.** 27

28 If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it. 28

b. Sheila Bell, social security number 111-00-1111, is married filing separately (husband Ben Bell, social security number 201-00-1111). Sheila had earnings of $12,941 and tax withheld of $1,396. She had no other income, exemptions, or credits (see Exhibits 19 and 20).

Exhibit 19

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 20) ______

No. of **other** dependents listed on 6c ______

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13

Exhibit 20

1989 **Form 1040A**

Step 6

14 Enter the amount from line 13. 14

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind } **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

Figure your standard deduction,

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16

exemption amount, and

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

taxable income

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.** ▶ 19

Step 7

If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

20 Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615 20

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) 22

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). 23

24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b

26 Add lines 25a and 25b. Enter the total. These are your **total payments.** ▶ 26

Step 8

Figure your refund or amount you owe

27 If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund.** 27

28 If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it. 28

Step 9

Sign your return

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Date Your occupation

X

Spouse's signature (if joint return, both must sign) Date Spouse's occupation

X

Paid preparer's use only

Preparer's signature Date Preparer's social security no.

X

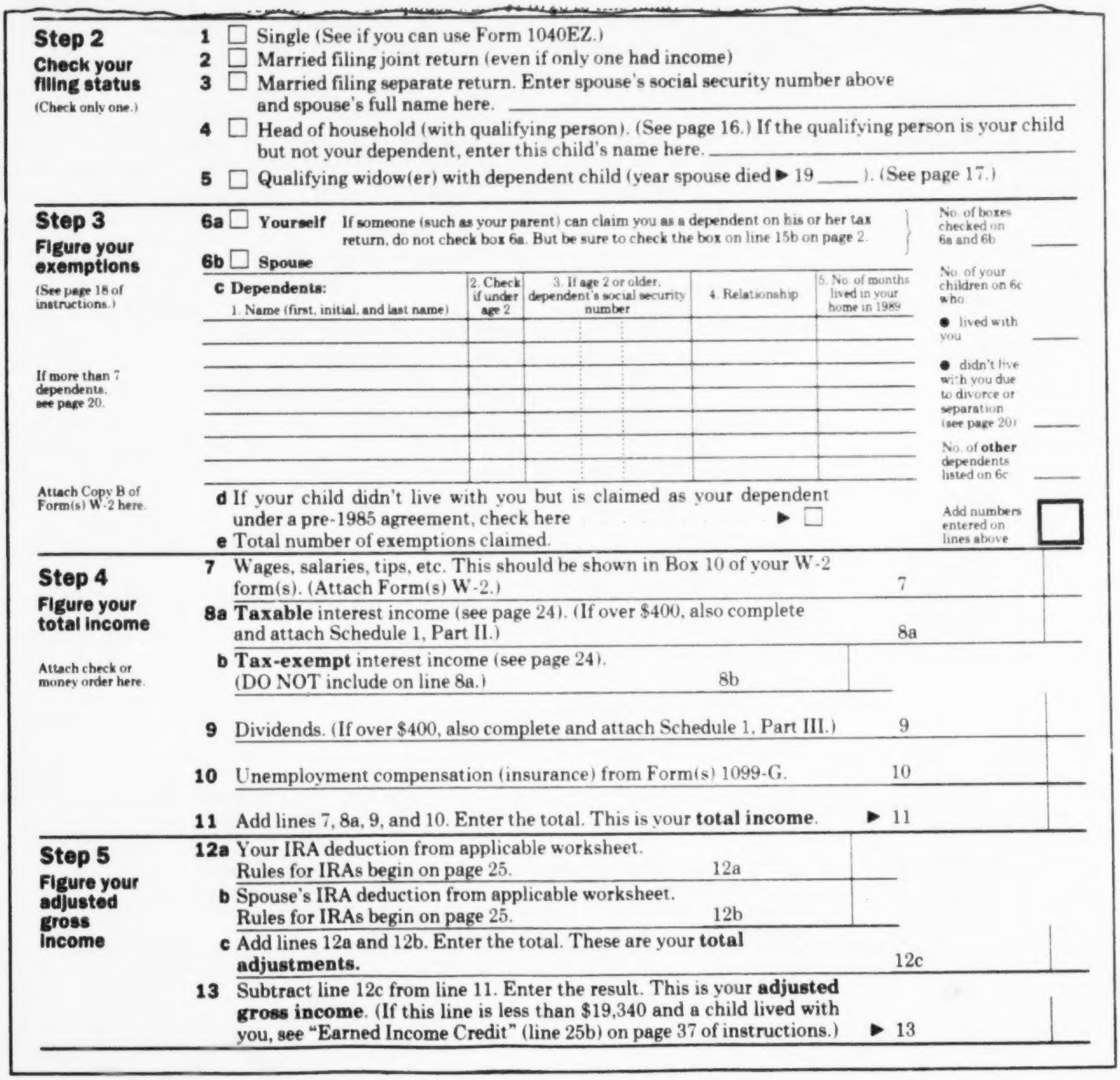
Firm's name (or yours if self-employed) Employer identification no.

PROOF COPY

Address and ZIP code Check if self-employed ☐

c. Tom Hunt, social security number 123-00-6789, is a head of household and claims his daughter, Joan, age 13, who lived with him all year, social security number 345-00-1234, as a dependent. Tom earned $11,737. He received advance earned income credit payments of $745 and had tax withholding of $550. Tom's earned income credit is $760. (See Exhibits 21 and 22.)

Exhibit 21



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 20) ______

No. of **other** dependents listed on 6c ______

If more than 7 dependents, see page 20.

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13

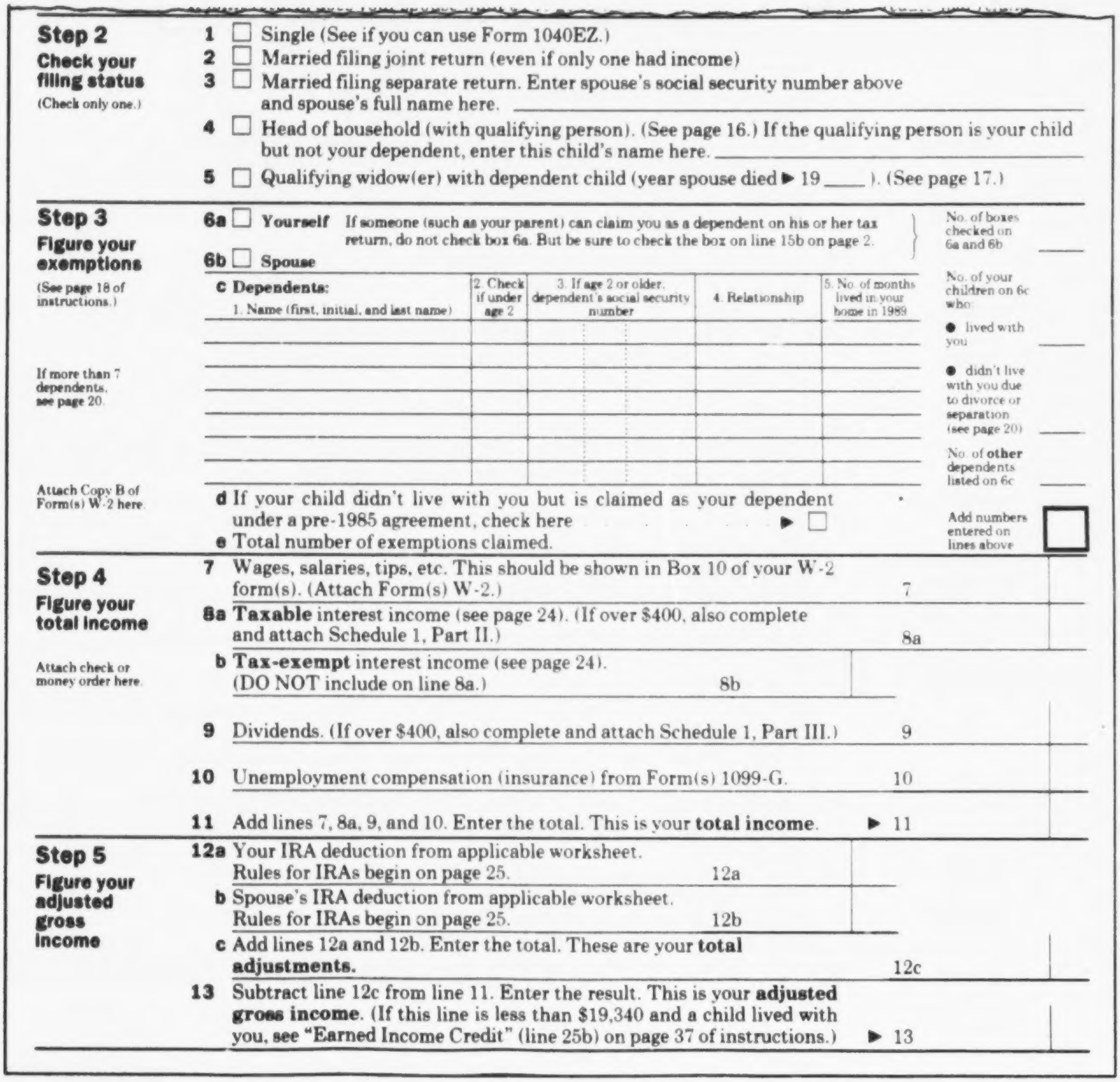
Exhibit 22

1989 Form 1040A

Step 6	**14**	Enter the amount from line 13.	14
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind **Enter number of boxes checked** ▶ 15a ☐	
	b	If someone (such as your parent) can claim you as a dependent, check here . . . . ▶ 15b ☐	
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here . . . ▶ 15c ☐	
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.**	▶ 19
		If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.	
Step 7		**Caution:** If you are under age 14 and have more than $1,000 of investment income, check here . . . . ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.	
	20	Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615	20
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)	22
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.**	▶ 24
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a	
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b	
	26	Add lines 25a and 25b. Enter the total. These are your **total payments.**	▶ 26
Step 8	**27**	If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund.**	27
Figure your refund or amount you owe	**28**	If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it.	28

d. Molly, social security number 300-00-0000, and Rick Lemon, social security number 200-00-0000, are married and filing a joint return. She is 65 and he is 64. Rick, the only wage earner, earned $15,661. Molly did not become eligible for Medicare Part A coverage until October 15. Federal tax withheld was $932 (see Exhibits 23 and 24).

Exhibit 23



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 20) ____

No. of other dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income.** (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13

Exhibit 24

1989 **Form 1040A**

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14

15a Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind } **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19

If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

20 Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615 20

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) 22

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). 23

24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b

26 Add lines 25a and 25b. Enter the total. These are your **total payments.** ▶ 26

Step 8

Figure your refund or amount you owe

27 If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**. 27

28 If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it. 28

Step 9

Sign your return

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Date Your occupation

x

Spouse's signature (if joint return, both must sign) Date Spouse's occupation

x

Paid preparer's use only

Preparer's signature Date Preparer's social security no.

x

Firm's name (or yours if self-employed) Employer identification no.

Address and ZIP code Check if self-employed ☐

Summary

This lesson explained how to figure the correct tax and how to determine whether the taxpayer will receive a refund or owe tax.

If any section of the return still seems unclear to you, go over that part of the text again.

Answers to Exercises

1. a. $2,818.
   b. $2,246.
   c. $2,727.
   d. $1,991.
2. a. See filled-in Exhibits 17 and 18.
   b. See filled-in Exhibits 19 and 20.
   c. See filled-in Exhibits 21 and 22.
   d. See filled-in Exhibits 23 and 24.

Exhibit 17, filled-in

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☒ Married filing separate return. Enter spouse's social security number above and spouse's full name here. Sue Wilson
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Ron Wilson, Jr.		122 00 2222	Son	12

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 20) ____

No. of other dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above: 2

Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	18,334 –
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	75 –
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income.**	▶ 11	18,409 –

Step 5
Figure your adjusted gross income

12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a		
b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b		
c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income.** (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	18,409 –

Exhibit 18, filled-in

1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.		14	18,409 -
	15a	Check if: ☐ **You were 65 or older** ☐ Blind; ☐ **Spouse was 65 or older** ☐ Blind } **Enter number of boxes checked** ▶ 15a			☐
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐			
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐			
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**		16	2,600 -
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)		17	15,809 -
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.		18	4,000 -
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶		19	11,809 -
Step 7		**If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.** **Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.			
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615		20	1,774 -
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.		21	
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)		22	1,774 -
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).		23	
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶		24	1,774 -
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a	1,880 -		
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b			
	26	Add lines 25a and 25b. Enter the total. These are your **total payments**. ▶		26	1,880 -
Step 8	**27**	If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**.		27	106 -
Figure your refund or amount you owe	**28**	If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it.		28	

Exhibit 19, filled-in

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☒ Married filing separate return. Enter spouse's social security number above and spouse's full name here. Ben Bell
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

If more than 7 dependents, see page 20.

c **Dependents:** 1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 20) ____

No. of other dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above: 1

Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	12,941 –
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b	
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	12,941 –

Step 5
Figure your adjusted gross income

12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12a	
b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12b	
c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	12,941 –

Exhibit 20, filled-in

1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14	12,941 —
	15a	Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked** ▶	15a	☐
	b	If someone (such as your parent) can claim you as a dependent, check here ▶	15b	☐
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶	15c	☐
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	2,600 —
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	10,341 —
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	2,000 —
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶	19	8,341 —

If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7		**Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.		
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20	1,249 —
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21	
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)	22	1,249 —
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23	
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶	24	1,249 —
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a 1,396 —		
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b		
	26	Add lines 25a and 25b. Enter the total. These are your **total payments**. ▶	26	1,396 —
Step 8	**27**	If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**.	27	147 —
Figure your refund or amount you owe	**28**	If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it.	28	

Step 9

Sign your return

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature X Date Your occupation

Spouse's signature (if joint return, both must sign) X Date Spouse's occupation

Paid preparer's use only

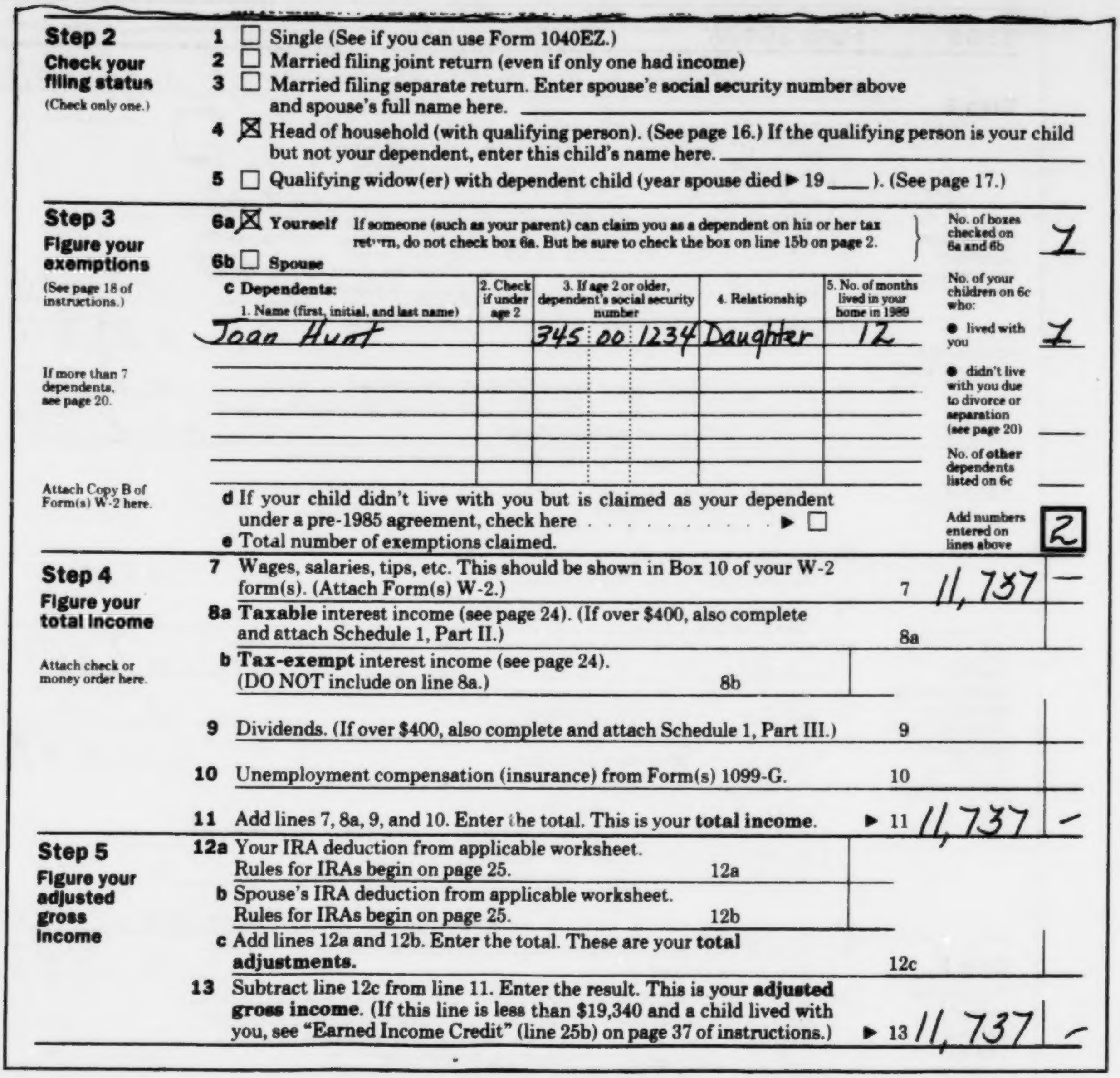
Preparer's signature X Date Preparer's social security no.

Firm's name (or yours if self-employed) Employer identification no.

Address and ZIP code Check if self-employed ☐

PROOF COPY

Exhibit 21, filled-in



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____
4 ☒ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c **Dependents:**

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Joan Hunt		345 00 1234	Daughter	12

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 20) ____

No. of other dependents listed on 6c ____

If more than 7 dependents, see page 20.

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above: 2

Step 4
Figure your total income

Attach check or money order here.

7	Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	11,737 —
8a	**Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b	**Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.)	8b	
9	Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10	Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11	Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income.**	▶ 11	11,737 —

Step 5
Figure your adjusted gross income

12a	Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12a	
b	Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25.	12b	
c	Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
13	Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income.** (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	11,737 —

Exhibit 22, filled-in

1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14	11,737	–
	15a	Check if: ☐ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked** ▶ 15a ☐			
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐			
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐			
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	4,550	–
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	7,187	–
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	4,000	–
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**.	▶ 19	3,187	–
		If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.			
Step 7		**Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.			
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20	476	–
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21		
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) AEIC = 745	22	1,221	–
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23		
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.**	▶ 24	1,221	–
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐.) 25a 550 –			
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b 760 –			
	26	Add lines 25a and 25b. Enter the total. These are your **total payments.**	▶ 26	1,310	–
Step 8	**27**	If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**.	27	89	–
Figure your refund or amount you owe	**28**	If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it.	28		

Exhibit 23, filled-in

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ________
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☒ **Spouse**

No. of boxes checked on 6a and 6b 2

c Dependents: 1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
● lived with you ____
● didn't live with you due to divorce or separation (see page 20) ____
No. of other dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above 2

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	7	15,661 —
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.)	8a	
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b		
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.)	9	
10 Unemployment compensation (insurance) from Form(s) 1099-G.	10	
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**.	▶ 11	15,661 —

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a		
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b		
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.**	12c	
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.)	▶ 13	15,661 —

Exhibit 24, filled-in

1989 Form 1040A

Step 6	**14**	Enter the amount from line 13.	14	15,661 -
	15a	Check if: ☒ **You were 65 or older** ☐ Blind ☐ **Spouse was 65 or older** ☐ Blind **Enter number of boxes checked** ▶	15a	1
	b	If someone (such as your parent) can claim you as a dependent, check here ▶	15b	☐
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶	15c	☐
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	5,800 -
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	9,861 -
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	4000 -
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.** ▶	19	5,861 -
Step 7		**If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.** **Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.		
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20	881 -
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21	
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)	22	881 -
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23	
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶	24	881 -
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a 932 -		
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b		
	26	Add lines 25a and 25b. Enter the total. These are your **total payments.** ▶	26	932 -
Step 8	**27**	If line 26 is more than line 24, subtract line 24 from line 26. Enter the result. This is your **refund**.	27	51 -
Figure your refund or amount you owe	**28**	If line 24 is more than line 26, subtract line 26 from line 24. Enter the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040A" on it.	28	

Module II

Lesson 11

Tax Credits and Payments

Objective

At the end of this lesson you will be able to complete the following tax, credit, and payment entries on Form 1040A.

1. The credit for child and dependent care expenses,
2. The federal income tax withheld payment, and
3. The earned income credit.

Contents

Introduction

Credit for Child and Dependent Care Expenses

Credit Limitation

Federal Income Tax Withheld

Earned Income Credit

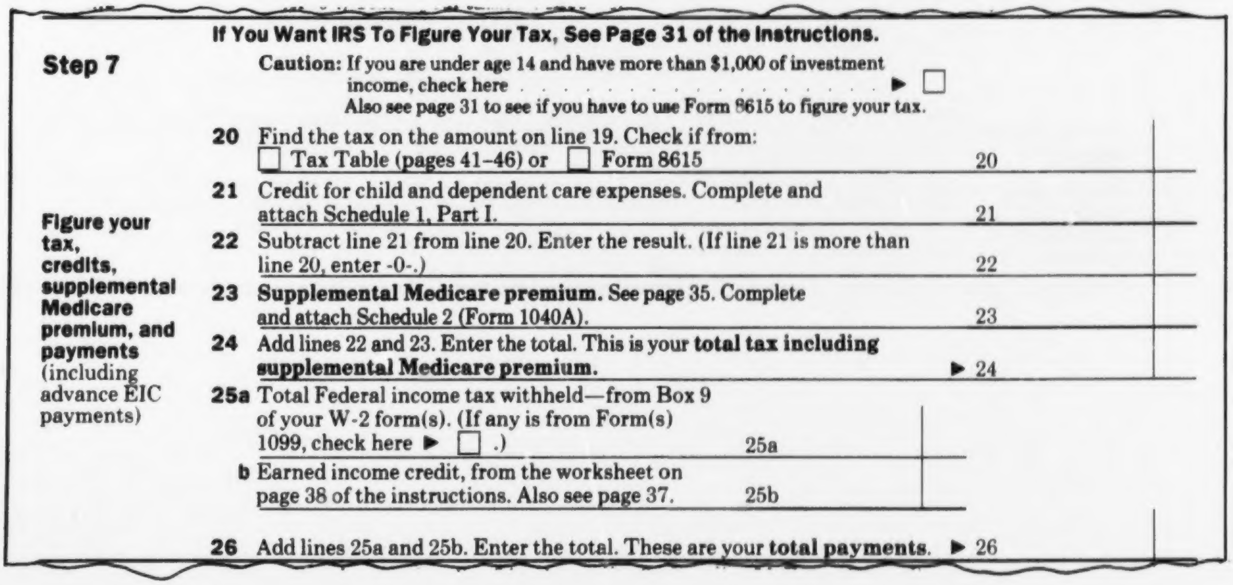
Summary

Answers to Exercises

Introduction

Three credits and payments may be claimed on Form 1040A in Step 7 (see Exhibit 1). In this lesson you will study each one.

Exhibit 1



If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7

Caution: If you are under age 14 and have more than $1,000 of investment income, check here . . . . ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

20 Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615 — 20

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. — 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) — 22

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). — 23

24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) — 25a

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. — 25b

26 Add lines 25a and 25b. Enter the total. These are your **total payments.** ▶ 26

Credit for Child and Dependent Care Expenses

Certain taxpayers may take a credit for amounts paid for the care of children, a disabled spouse, or other disabled dependent. The expenses must have been paid in order for the taxpayer to work or look for work. The credit is figured on Part I, Schedule 1 of Form 1040A. See Exhibit 2.

Who May Claim the Credit

To qualify for the credit, a taxpayer must:

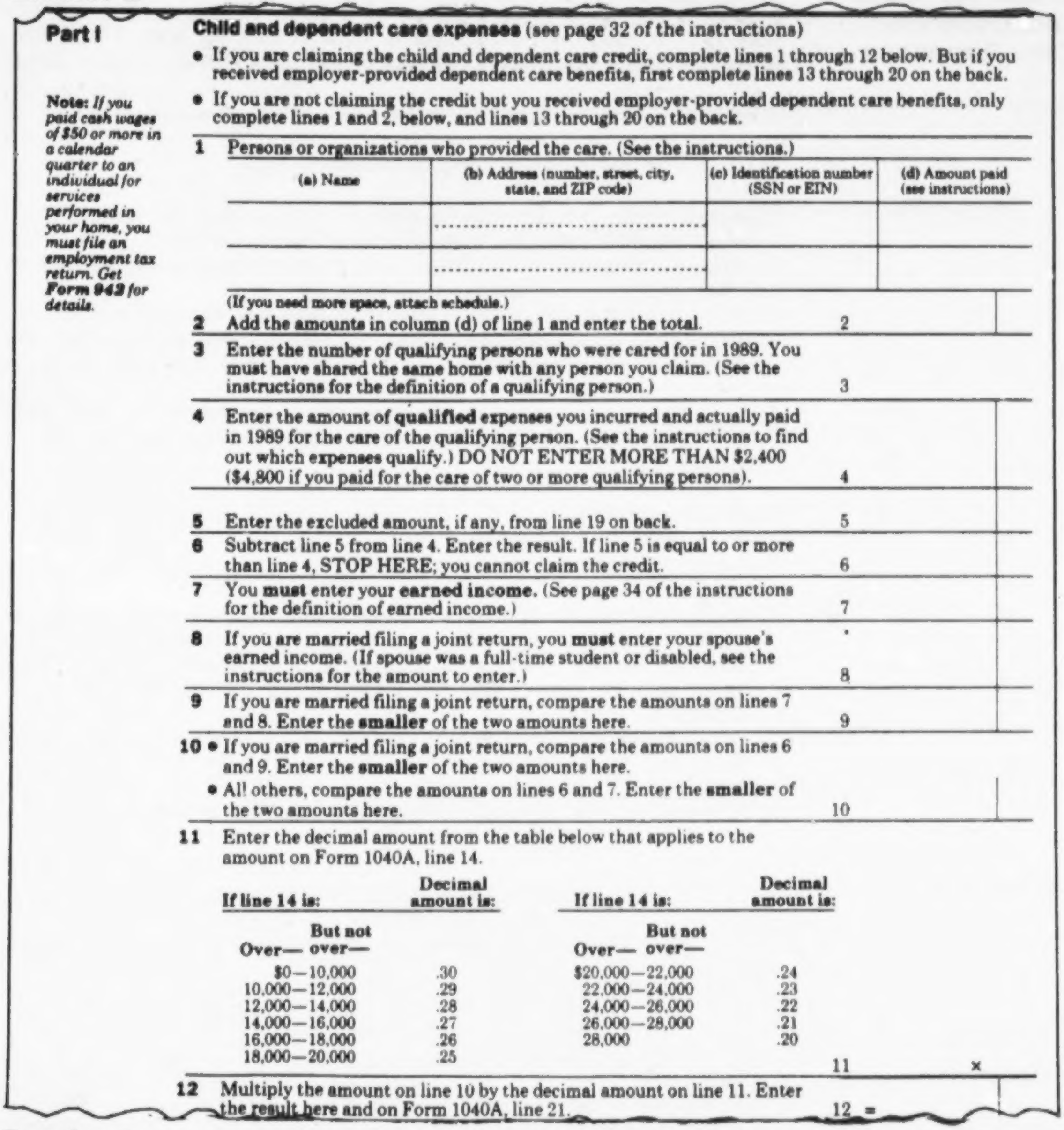
1. Have incurred the expenses in order to work or look for work,
2. Have earned income for work performed during the year,
3. Have maintained a home that is also the home of a qualifying person (see following),
4. File a joint return, if married, unless the taxpayer kept up a home in which a qualifying person lived for more than half the year and in which the taxpayer's spouse did not live for at least the last 6 months of the year, and
5. Have paid the expenses to someone who is not his or her child under age 19 nor a person who may be claimed as a dependent on the taxpayer's return.

Qualifying Persons

A qualifying person is one of the following:

* 1. A dependent under age 13 for whom a personal exemption is claimed. (Note: There is an exception for divorced or separated parents. The parent who has custody of the child a longer time during the year than the other parent may be able to take the credit without claiming the child as a dependent. Publication 17 gives more information.)
2. A dependent, or a person who could have been claimed as a dependent if his or her gross income had been less than $2,000, who is physically or mentally incapable of self-care.
3. A spouse who is physically or mentally incapable of self-care.

Exhibit 2



Part I

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* ***Form 942*** *for details.*

Child and dependent care expenses (see page 32 of the instructions)

- If you are claiming the child and dependent care credit, complete lines 1 through 12 below. But if you received employer-provided dependent care benefits, first complete lines 13 through 20 on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete lines 1 and 2, below, and lines 13 through 20 on the back.

1 Persons or organizations who provided the care. (See the instructions.)

(a) Name	(b) Address (number, street, city, state, and ZIP code)	(c) Identification number (SSN or EIN)	(d) Amount paid (see instructions)

(If you need more space, attach schedule.)

2 Add the amounts in column (d) of line 1 and enter the total. 2

3 Enter the number of qualifying persons who were cared for in 1989. You must have shared the same home with any person you claim. (See the instructions for the definition of a qualifying person.) 3

4 Enter the amount of **qualified expenses** you incurred and actually paid in 1989 for the care of the qualifying person. (See the instructions to find out which expenses qualify.) DO NOT ENTER MORE THAN $2,400 ($4,800 if you paid for the care of two or more qualifying persons). 4

5 Enter the excluded amount, if any, from line 19 on back. 5

6 Subtract line 5 from line 4. Enter the result. If line 5 is equal to or more than line 4, STOP HERE; you cannot claim the credit. 6

7 You **must** enter your **earned income.** (See page 34 of the instructions for the definition of earned income.) 7

8 If you are married filing a joint return, you **must** enter your spouse's earned income. (If spouse was a full-time student or disabled, see the instructions for the amount to enter.) 8

9 If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here. 9

10
- If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here.
- All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here. 10

11 Enter the decimal amount from the table below that applies to the amount on Form 1040A, line 14.

If line 14 is: Over— But not over—	Decimal amount is:	If line 14 is: Over— But not over—	Decimal amount is:
$0—10,000	.30	$20,000—22,000	.24
10,000—12,000	.29	22,000—24,000	.23
12,000—14,000	.28	24,000—26,000	.22
14,000—16,000	.27	26,000—28,000	.21
16,000—18,000	.26	28,000	.20
18,000—20,000	.25		

11 ×

12 Multiply the amount on line 10 by the decimal amount on line 11. Enter the result here and on Form 1040A, line 21. 12 =

Exercise 1

Mr. Burns has come to you for help. During 1989, he had qualifying expenses for the care of his wife, who is physically unable to care for herself. He also paid to have someone prepare meals for his 13-year-old daughter, so that she could devote her time to school work. How many qualifying persons will you show on line 3, Part I of Schedule 1? See Exhibit 2.

Answer

Where Care Can Be Provided

Disabled dependent and disabled spouse care expenses are allowed for services performed in the taxpayer's home or in dependent care centers, as long as the qualifying dependent or spouse regularly spends at least 8 hours a day in the taxpayer's home.

Beginning in 1989, any taxpayer claiming the child and dependent care credit must report the name, address, and taxpayer identification number of, as well as the amount paid to, each individual or organization providing the dependent care assistance. For 1040A filers, this information must be given in Part I of Schedule 1 (see Exhibit 2).

Child care expenses also are not confined to the home. For example, expenses for nursery school or day care centers may qualify. Expenses for a child to attend the first grade or higher do not qualify, but care before and after school is a qualifying expense.

* **Overnight camp expenses.** Do not count any expense for an overnight camp when figuring a taxpayer's child and dependent care credit or exclusion for dependent care assistance. That expense is no longer considered necessary to allow the taxpayer to work.

Expense Limit

The amount of expenses eligible for the credit is limited to the lowest of:

1. The lower-paid spouse's earnings. (If single, the taxpayer's earnings)
2. The actual expenses paid.
3. The overall limit of $2,400 a year for one qualifying person and $4,800 a year for two or more qualifying persons.

Example

Mark earned $14,000 and Evelyn earned $5,600 in 1989. Day care expenses for their 3-year-old daughter were $2,200. The maximum amount of child care expenses they can use is $2,200.

This is the lowest of:

1. Lower-paid spouse's income—$5,600.
2. The amount actually paid—$2,200.
3. Limit for one qualifying person—$2,400.

* If a taxpayer receives reimbursement under his or her employer's dependent care assistance program, the dollar limit ($2,400 or $4,800) on expenses eligible for the credit must be reduced. The dollar limit is reduced dollar for dollar by any reimbursement excluded from the taxpayer's income.

Example

Geraldine Moore has one dependent child—her son, Jerry—who qualifies her to receive the child and dependent care credit. Her limit for one qualifying individual is $2,400. Geraldine received $1,400 in 1989 under her employer's dependent care assistance program. Her credit can be based on a maximum dollar limit of only $1,000 ($2,400 - $1,400).

Nonworking Spouse

A spouse who did not work during the year might still be treated as having worked if he or she was either a full-time student or was incapable of self-care. For purposes of figuring the lower-paid spouse's income limit, the nonworking spouse is considered to have earned $200 a month if there is one qualifying person in the home ($400 if there are two or more) for each month the student or disability criteria are met. An individual must meet certain requirements to qualify as a full-time student. Some of these requirements are explained in Lesson 4 under *Income Test*. For a more detailed discussion, see Publication 17.

Example

Janice worked full time and Bob was a full-time student from the beginning of January through the end of May. They placed their son in a day care center while Bob attended school. Bob qualified as a full-time student because he attended school for some part of each of 5 calendar months of the year. Bob's earned income for the period he attended school is $1,000 ($200 × 5 months).

Figuring the Credit

The credit is a percentage of eligible expenses (qualifying expenses up to the expense limit). For taxpayers with adjusted gross incomes (line 14, Form 1040A) of $10,000 or less, the credit is 30% of eligible expenses. As adjusted gross income (AGI) increases, the percentage decreases. The table in Part I, Schedule 1 of Form 1040A shows the percentage for each AGI bracket (see Exhibit 2). Notice that the percentage is never lower than 20%.

Exercise 2

Mr. and Mrs. Worth paid $2,800 to Karen's Kiddie Kare, 456 Charles Avenue, Berlin, MD 25789 (EIN 10-6789101), last year for the care of their son while they both worked. Mrs. Worth's earned income was $18,500. Mr. Worth's earned income was $20,200. Neither had a dependent care assistance program at work. Their adjusted gross income from line 14, Form 1040A, is $34,700. Their tax, before credits, is $3,529. Prepare Part I, Schedule 1, Form 1040A, for the Worths (see Exhibit 3).

Exhibit 3

Part I

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* ***Form 942*** *for details.*

Child and dependent care expenses (see page 32 of the instructions)

- If you are claiming the child and dependent care credit, complete lines 1 through 12 below. But if you received employer-provided dependent care benefits, first complete lines 13 through 20 on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete lines 1 and 2, below, and lines 13 through 20 on the back.

1 Persons or organizations who provided the care. (See the instructions.)

(a) Name	(b) Address (number, street, city, state, and ZIP code)	(c) Identification number (SSN or EIN)	(d) Amount paid (see instructions)

(If you need more space, attach schedule.)

2 Add the amounts in column (d) of line 1 and enter the total. 2

3 Enter the number of qualifying persons who were cared for in 1989. You must have shared the same home with any person you claim. (See the instructions for the definition of a qualifying person.) 3

4 Enter the amount of **qualified** expenses you incurred and actually paid in 1989 for the care of the qualifying person. (See the instructions to find out which expenses qualify.) DO NOT ENTER MORE THAN $2,400 ($4,800 if you paid for the care of two or more qualifying persons). 4

5 Enter the excluded amount, if any, from line 19 on back. 5

6 Subtract line 5 from line 4. Enter the result. If line 5 is equal to or more than line 4, STOP HERE; you cannot claim the credit. 6

7 You **must** enter your **earned income.** (See page 34 of the instructions for the definition of earned income.) 7

8 If you are married filing a joint return, you **must** enter your spouse's earned income. (If spouse was a full-time student or disabled, see the instructions for the amount to enter.) 8

9 If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here. 9

10
- If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here.
- All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here. 10

11 Enter the decimal amount from the table below that applies to the amount on Form 1040A, line 14.

If line 14 is: Over— But not over—	Decimal amount is:	If line 14 is: Over— But not over—	Decimal amount is:
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10,000—12,000	.29	22,000—24,000	.23
12,000—14,000	.28	24,000—26,000	.22
14,000—16,000	.27	26,000—28,000	.21
16,000—18,000	.26	28,000	.20
18,000—20,000	.25		

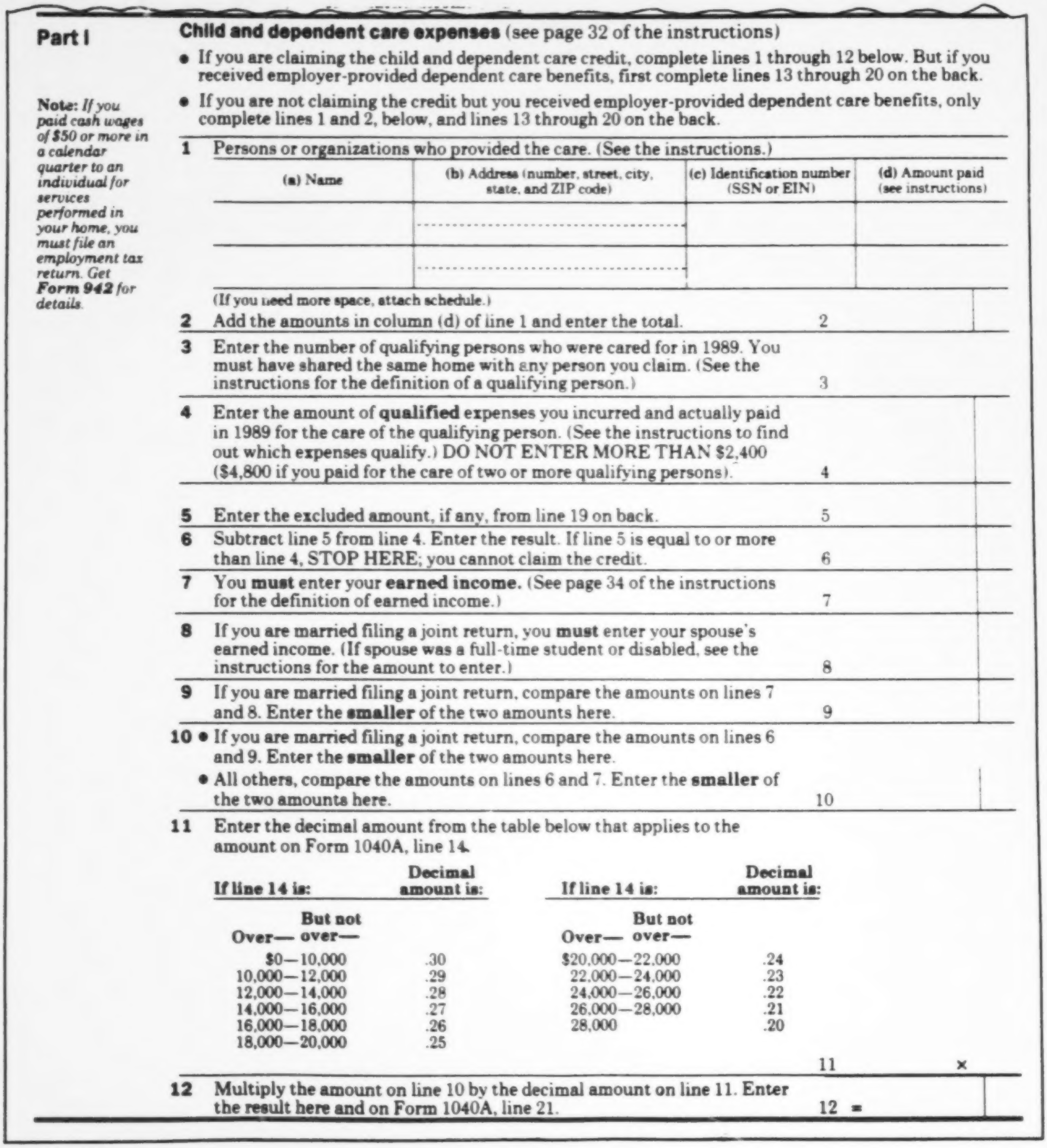
11 ×

12 Multiply the amount on line 10 by the decimal amount on line 11. Enter the result here and on Form 1040A, line 21. 12 =

Exercise 3

The Craigs need help with their child care credit. Their adjusted gross income for 1989 is $18,123. Mr. Craig's earned income is $10,225 and Mrs. Craig's earned income is $8,775. The Craigs paid $3,600 during 1989 to Dot's Day Care Center, 555 Lincoln Court, Grant, IL 66677 (EIN 10–1861234), for their two preschool-age children who lived with them all year. Neither Mr. Craig nor Mrs. Craig received any dependent care assistance from their employers. Prepare Part I, Schedule 1, Form 1040A, for the Craigs (see Exhibit 4).

Exhibit 4



Part I

Child and dependent care expenses (see page 32 of the instructions)

- If you are claiming the child and dependent care credit, complete lines 1 through 12 below. But if you received employer-provided dependent care benefits, first complete lines 13 through 20 on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete lines 1 and 2, below, and lines 13 through 20 on the back.

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* **Form 942** *for details.*

1 Persons or organizations who provided the care. (See the instructions.)

(a) Name	(b) Address (number, street, city, state, and ZIP code)	(c) Identification number (SSN or EIN)	(d) Amount paid (see instructions)

(If you need more space, attach schedule.)

2 Add the amounts in column (d) of line 1 and enter the total. 2

3 Enter the number of qualifying persons who were cared for in 1989. You must have shared the same home with any person you claim. (See the instructions for the definition of a qualifying person.) 3

4 Enter the amount of **qualified** expenses you incurred and actually paid in 1989 for the care of the qualifying person. (See the instructions to find out which expenses qualify.) DO NOT ENTER MORE THAN $2,400 ($4,800 if you paid for the care of two or more qualifying persons). 4

5 Enter the excluded amount, if any, from line 19 on back. 5

6 Subtract line 5 from line 4. Enter the result. If line 5 is equal to or more than line 4, STOP HERE; you cannot claim the credit. 6

7 You **must** enter your **earned income.** (See page 34 of the instructions for the definition of earned income.) 7

8 If you are married filing a joint return, you **must** enter your spouse's earned income. (If spouse was a full-time student or disabled, see the instructions for the amount to enter.) 8

9 If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here. 9

10
- If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here.
- All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here. 10

11 Enter the decimal amount from the table below that applies to the amount on Form 1040A, line 14.

If line 14 is: Over— But not over—	Decimal amount is:	If line 14 is: Over— But not over—	Decimal amount is:
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10,000—12,000	.29	22,000—24,000	.23
12,000—14,000	.28	24,000—26,000	.22
14,000—16,000	.27	26,000—28,000	.21
16,000—18,000	.26	28,000	.20
18,000—20,000	.25		

11 ×

12 Multiply the amount on line 10 by the decimal amount on line 11. Enter the result here and on Form 1040A, line 21. 12 =

Credit Limitation

The credit for child and dependent care expenses cannot exceed the tax liability shown on line 20, Form 1040A. If the credit exceeds the tax liability, the excess credit can never be used and the tax liability is zero.

Federal Income Tax Withheld

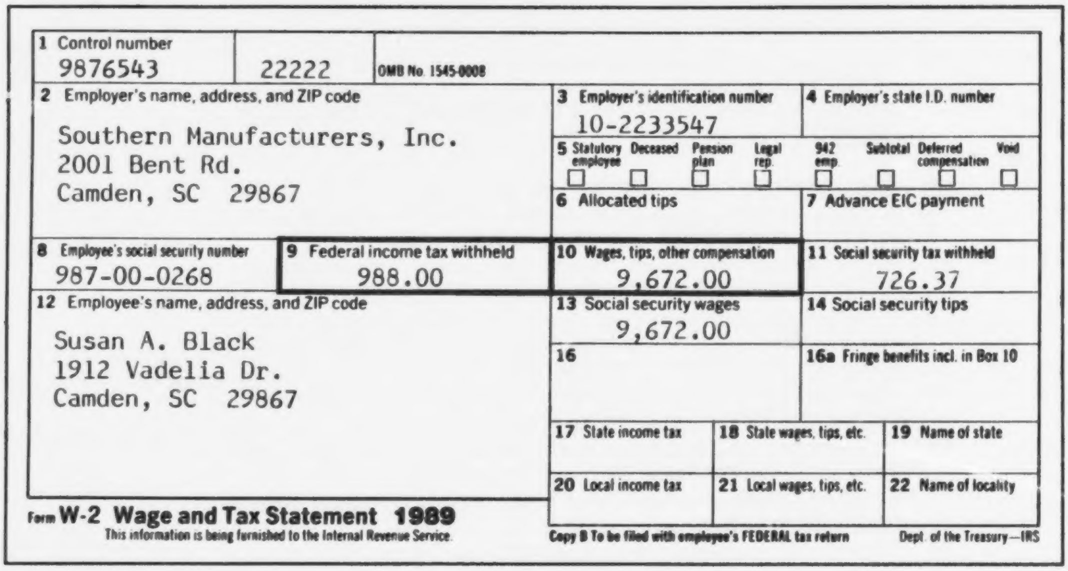
Employees have federal income tax withheld from their wages. On the Form W-2 that the employer gives the employee every year, federal income tax withheld is shown in box 9. Social security tax withheld is in box 11. Be careful to use the box 9 amount only. Do not treat the box 11 amount as withheld income tax.

On Form 1040A, use line 25a to report the total federal income tax withheld, as shown on all Forms W-2. For joint returns add the withholding from both spouses' Forms W-2 and enter the total.

Example

Susan Black gives you her Form W-2 (Exhibit 5). She had $988 withheld from her wages for federal income tax. You should enter $988 on line 25a of Form 1040A. If Susan had more than one Form W-2, you would add the federal withholding from all of her Forms W-2 and enter the total on line 25a.

Exhibit 5



1 Control number 9876543
22222
OMB No. 1545-0008

2 Employer's name, address, and ZIP code
Southern Manufacturers, Inc.
2001 Bent Rd.
Camden, SC 29867

3 Employer's identification number 10-2233547
4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips
7 Advance EIC payment

8 Employee's social security number 987-00-0268
9 Federal income tax withheld 988.00
10 Wages, tips, other compensation 9,672.00
11 Social security tax withheld 726.37

12 Employee's name, address, and ZIP code
Susan A. Black
1912 Vadelia Dr.
Camden, SC 29867

13 Social security wages 9,672.00
14 Social security tips
16
16a Fringe benefits incl. in Box 10
17 State income tax
18 State wages, tips, etc.
19 Name of state
20 Local income tax
21 Local wages, tips, etc.
22 Name of locality

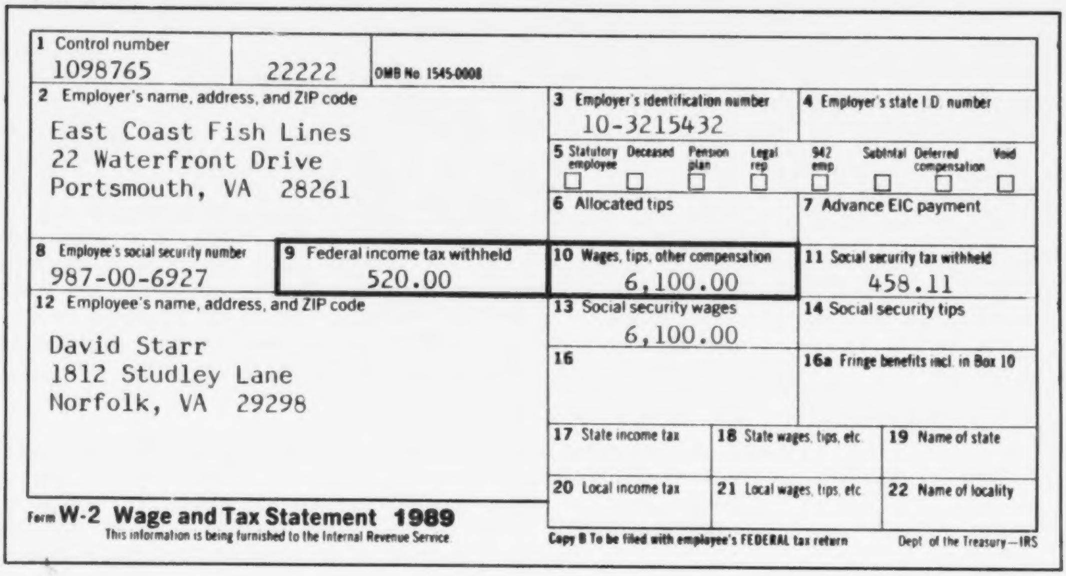
Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service.
Copy B To be filed with employee's FEDERAL tax return
Dept. of the Treasury—IRS

Exercise 4

Mallory and David Starr each had one job in 1989. Their Forms W-2 are shown as Exhibits 6 and 7. What is the amount on line 25a of their joint Form 1040A?

Answer

Exhibit 6



1 Control number
1098765

22222

OMB No. 1545-0008

2 Employer's name, address, and ZIP code
East Coast Fish Lines
22 Waterfront Drive
Portsmouth, VA 28261

3 Employer's identification number
10-3215432

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
987-00-6927

9 Federal income tax withheld
520.00

10 Wages, tips, other compensation
6,100.00

11 Social security tax withheld
458.11

12 Employee's name, address, and ZIP code
David Starr
1812 Studley Lane
Norfolk, VA 29298

13 Social security wages
6,100.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

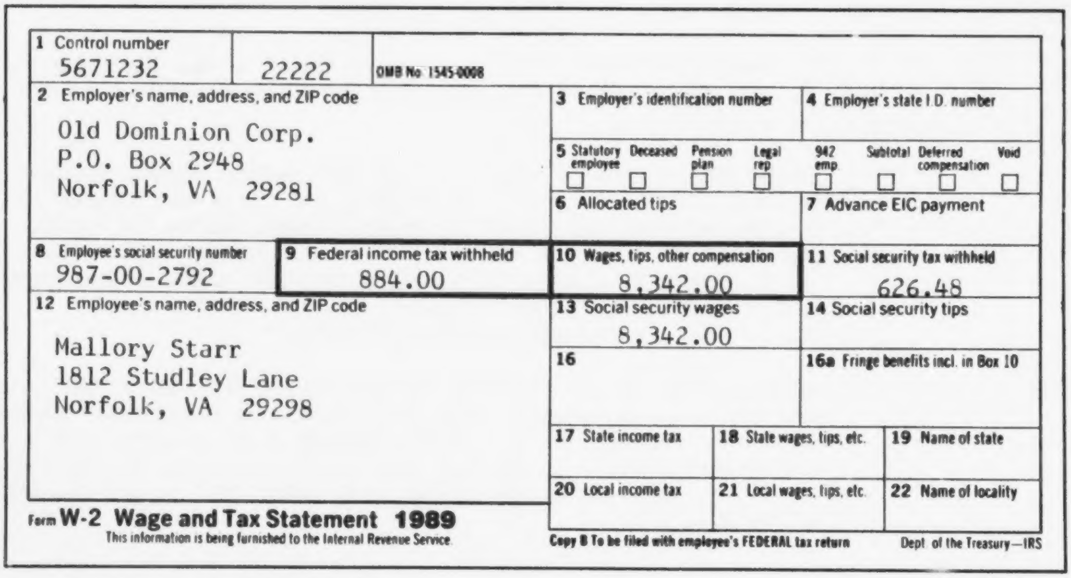
21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return
Dept. of the Treasury—IRS

Exhibit 7



1 Control number
5671232

22222

OMB No. 1545-0008

2 Employer's name, address, and ZIP code
Old Dominion Corp.
P.O. Box 2948
Norfolk, VA 29281

3 Employer's identification number

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
987-00-2792

9 Federal income tax withheld
884.00

10 Wages, tips, other compensation
8,342.00

11 Social security tax withheld
626.48

12 Employee's name, address, and ZIP code
Mallory Starr
1812 Studley Lane
Norfolk, VA 29298

13 Social security wages
8,342.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return
Dept. of the Treasury—IRS

Earned Income Credit

*

The earned income credit is a refundable credit. That is, it is treated like a tax payment such as withheld income tax. If individuals qualify, they may receive a refund even if they never paid any tax or had any tax withheld. The earned income credit can be as much as $910.

To qualify, the taxpayer must:

1. Have earned income and adjusted gross income each less than $19,340,
2. Have some earned income (wages, salaries, tips, etc.),
3. File as head of household, married filing jointly, or qualifying widow(er), and
4. Have a child living with him or her over half the year in the United States (all year for a qualifying widow(er)).

In addition, special rules apply to each filing status.

Married filing jointly. If the taxpayer is filing a joint return, but is no longer married to the other parent of the child who qualifies the taxpayer for the credit, the taxpayer may not have to claim an exemption for the child. The taxpayer does not have to claim the exemption if he or she would be able to claim it except that the child's other parent will be able to claim the exemption because either the taxpayer released his or her claim in writing or the exemption was granted to the child's other parent by a pre-1985 instrument (such as a divorce decree or separation agreement). If the taxpayer does not claim the exemption, the child's name must be entered on the space to the left of line 25b, Form 1040A.

Head of household. If the child was unmarried during 1989, the child's name must be shown on line 4 or line 6c, Form 1040A. If the child was married, the taxpayer does not have to claim the child as an exemption if the child is claimed as an exemption by the noncustodial parent under the rule explained under *Married filing jointly.* In this case, the child's name must be entered to the left of line 25b, Form 1040A (unless you entered the child's name in the space provided on line 4).

Qualifying widow(er). For a qualifying widow(er) to take the credit, the child must be claimed as a dependent on line 6c of his or her Form 1040A.

Earned income includes wages, salaries, tips, certain disability pensions, and anything else of value, even if not taxable, that the person received for providing services. Examples of nontaxable earned income are housing allowances for the clergy and certain meals and lodging for employees. Earned income does not include interest, dividends, social security payments, welfare benefits, nondisability pensions, veterans' benefits, workers' compensation, or unemployment compensation.

Note: As soon as you learn that the taxpayer you are helping has income of less than $19,340 and has a child, find out whether the taxpayer qualifies for the earned income credit. Even if the taxpayer is not required to file a return, one should be filed if the taxpayer qualifies for the earned income credit. If the taxpayer does not qualify for the credit, write "NO" on line 25b and go to line 26.

Exercise 5

Do these taxpayers qualify for the earned income credit?

a. Benjamin lives alone, is single, and earns $6,000.
Yes__________ No__________

b. Brenda is filing as a qualifying widow and has a dependent daughter who lived with her all year. Brenda has wages of $6,500 and interest income of $200.
Yes__________ No__________

c. Vickie is married, files a separate return, and lived with her husband 11 months of the year. She had wages of $8,000 and claimed her dependent son.
Yes__________ No__________

d. Virginia is filing as head of household and has a 2-year-old daughter who lived with her all year. Virginia gave a written statement to her former husband allowing him to claim their daughter as his dependent. Virginia's earnings were $5,400 last year.
Yes__________ No__________

e. Wilma and Mike are filing a joint return and have dependent triplets. Wilma had earnings of $9,000 and Mike had earnings of $12,000 last year.
Yes____________ No____________

f. Ann is married but has lived apart from her husband since May. She has a dependent son who lived with her all year. She can claim him as a dependent. Ann had wages of $11,200 and does not wish to file with her husband.
Yes____________ No____________

g. Jim and Mary Ann file a joint return and have two dependent children. Jim had wages of $12,900 and interest income of $7,600 last year.

Yes____________ No____________

Computing Earned Income Credit

Use the Earned Income Credit Worksheet and Table to figure the credit. The table is reprinted here (Exhibit 8) from the Instructions for Form 1040A. Notice that you do not use line 19 (taxable income) of Form 1040A in making this computation.

Exhibit 8

1989 Earned Income Credit Table

Caution: This is not a tax table.

To find your earned income credit.—Read down the column titled "If line 1 or 2 of the worksheet is—" and find the appropriate amount from the Earned Income Credit Worksheet on page 38. Read across to the right and find the amount of the earned income credit. Enter that amount on line 3 or 4 of the worksheet, whichever applies.

If line 1 or 2 of the worksheet is—		Your earned income credit is—	If line 1 or 2 of the worksheet is—		Your earned income credit is—	If line 1 or 2 of the worksheet is—		Your earned income credit is—	If line 1 or 2 of the worksheet is—		Your earned income credit is—	If line 1 or 2 of the worksheet is—		Your earned income credit is—
At least	But less than		At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$1	$25	$2	$1,600	$1,625	$226	$3,200	$3,225	$450	$4,800	$4,825	$674	$6,400	$6,425	$898
25	50	5	1,625	1,650	229	3,225	3,250	453	4,825	4,850	677	6,425	6,450	901
50	75	9	1,650	1,675	233	3,250	3,275	457	4,850	4,875	681	6,450	6,475	905
75	100	12	1,675	1,700	236	3,275	3,300	460	4,875	4,900	684	6,475	6,500	908
100	125	16	1,700	1,725	240	3,300	3,325	464	4,900	4,925	688	6,500	10,250	910
125	150	19	1,725	1,750	243	3,325	3,350	467	4,925	4,950	691	10,250	10,275	908
150	175	23	1,750	1,775	247	3,350	3,375	471	4,950	4,975	695	10,275	10,300	905
175	200	26	1,775	1,800	250	3,375	3,400	474	4,975	5,000	698	10,300	10,325	903
200	225	30	1,800	1,825	254	3,400	3,425	478	5,000	5,025	702	10,325	10,350	900
225	250	33	1,825	1,850	257	3,425	3,450	481	5,025	5,050	705	10,350	10,375	898
250	275	37	1,850	1,875	261	3,450	3,475	485	5,050	5,075	709	10,375	10,400	895
275	300	40	1,875	1,900	264	3,475	3,500	488	5,075	5,100	712	10,400	10,425	893
300	325	44	1,900	1,925	268	3,500	3,525	492	5,100	5,125	716	10,425	10,450	890
325	350	47	1,925	1,950	271	3,525	3,550	495	5,125	5,150	719	10,450	10,475	888
350	375	51	1,950	1,975	275	3,550	3,575	499	5,150	5,175	723	10,475	10,500	885
375	400	54	1,975	2,000	278	3,575	3,600	502	5,175	5,200	726	10,500	10,525	883
400	425	58	2,000	2,025	282	3,600	3,625	506	5,200	5,225	730	10,525	10,550	880
425	450	61	2,025	2,050	285	3,625	3,650	509	5,225	5,250	733	10,550	10,575	878
450	475	65	2,050	2,075	289	3,650	3,675	513	5,250	5,275	737	10,575	10,600	875
475	500	68	2,075	2,100	292	3,675	3,700	516	5,275	5,300	740	10,600	10.625	873
500	525	72	2,100	2,125	296	3,700	3,725	520	5,300	5,325	744	10,625	10,650	870
525	550	75	2,125	2,150	299	3,725	3,750	523	5,325	5,350	747	10,650	10,675	868
550	575	79	2,150	2,175	303	3,750	3,775	527	5,350	5,375	751	10,675	10,700	865
575	600	82	2,175	2,200	306	3,775	3,800	530	5,375	5,400	754	10,700	10,725	863
600	625	86	2,200	2,225	310	3,800	3,825	534	5,400	5,425	758	10,725	10,750	860
625	650	89	2,225	2,250	313	3,825	3,850	537	5,425	5,450	761	10,750	10,775	858
650	675	93	2,250	2,275	317	3,850	3,875	541	5,450	5,475	765	10,775	10,800	855
675	700	96	2,275	2,300	320	3,875	3,900	544	5,475	5,500	768	10,800	10,825	853
700	725	100	2,300	2,325	324	3,900	3,925	548	5,500	5,525	772	10,825	10,850	850
725	750	103	2,325	2,350	327	3,925	3,950	551	5,525	5,550	775	10,850	10,875	848
750	775	107	2,350	2,375	331	3,950	3,975	555	5,550	5,575	779	10,875	10,900	845
775	800	110	2,375	2,400	334	3,975	4,000	558	5,575	5,600	782	10,900	10,925	843
800	825	114	2,400	2,425	338	4,000	4,025	562	5,600	5,625	786	10,925	10,950	840
825	850	117	2,425	2,450	341	4,025	4,050	565	5,625	5,650	789	10,950	10,975	838
850	875	121	2,450	2,475	345	4,050	4,075	569	5,650	5,675	793	10,975	11,000	835
875	900	124	2,475	2,500	348	4,075	4,100	572	5,675	5,700	796	11,000	11,025	833
900	925	128	2,500	2,525	352	4,100	4,125	576	5,700	5,725	800	11,025	11,050	830
925	950	131	2,525	2,550	355	4,125	4,150	579	5,725	5,750	803	11,050	11,075	828
950	975	135	2,550	2,575	359	4,150	4,175	583	5,750	5,775	807	11,075	11,100	825
975	1,000	138	2,575	2,600	362	4,175	4,200	586	5,775	5,800	810	11,100	11,125	823
1,000	1,025	142	2,600	2,625	366	4,200	4,225	590	5,800	5,825	814	11,125	11,150	820
1,025	1,050	145	2,625	2,650	369	4,225	4,250	593	5,825	5,850	817	11,150	11,175	818
1,050	1,075	149	2,650	2,675	373	4,250	4,275	597	5,850	5,875	821	11,175	11,200	815
1,075	1,100	152	2,675	2,700	376	4,275	4,300	600	5,875	5,900	824	11,200	11,225	813
1,100	1,125	156	2,700	2,725	380	4,300	4,325	604	5,900	5,925	828	11,225	11,250	810
1,125	1,150	159	2,725	2,750	383	4,325	4,350	607	5,925	5,950	831	11,250	11,275	808
1,150	1,175	163	2,750	2,775	387	4,350	4,375	611	5,950	5,975	835	11,275	11,300	805
1,175	1,200	166	2,775	2,800	390	4,375	4,400	614	5,975	6,000	838	11,300	11,325	803
1,200	1,225	170	2,800	2,825	394	4,400	4,425	618	6,000	6,025	842	11,325	11,350	800
1,225	1,250	173	2,825	2,850	397	4,425	4,450	621	6,025	6,050	845	11,350	11,375	798
1,250	1,275	177	2,850	2,875	401	4,450	4,475	625	6,050	6,075	849	11,375	11,400	795
1,275	1,300	180	2,875	2,900	404	4,475	4,500	628	6,075	6,100	852	11,400	11,425	793
1,300	1,325	184	2,900	2,925	408	4,500	4,525	632	6,100	6,125	856	11,425	11,450	790
1,325	1,350	187	2,925	2,950	411	4,525	4,550	635	6,125	6,150	859	11,450	11,475	788
1,350	1,375	191	2,950	2,975	415	4,550	4,575	639	6,150	6,175	863	11,475	11,500	785
1,375	1,400	194	2,975	3,000	418	4,575	4,600	642	6,175	6,200	866	11,500	11,525	783
1,400	1,425	198	3,000	3,025	422	4,600	4,625	646	6,200	6,225	870	11,525	11,550	780
1,425	1,450	201	3,025	3,050	425	4,625	4,650	649	6,225	6,250	873	11,550	11,575	778
1,450	1,475	205	3,050	3,075	429	4,650	4,675	653	6,250	6,275	877	11,575	11,600	775
1,475	1,500	208	3,075	3,100	432	4,675	4,700	656	6,275	6,300	880	11,600	11,625	773
1,500	1,525	212	3,100	3,125	436	4,700	4,725	660	6,300	6,325	884	11,625	11,650	770
1,525	1,550	215	3,125	3,150	439	4.725	4,750	663	6,325	6,350	887	11,650	11,675	768
1,550	1,575	219	3,150	3,175	443	4,750	4,775	667	6,350	6,375	891	11,675	11,700	765
1,575	1,600	222	3,175	3,200	446	4,775	4,800	670	6,375	6,400	894	11,700	11,725	763

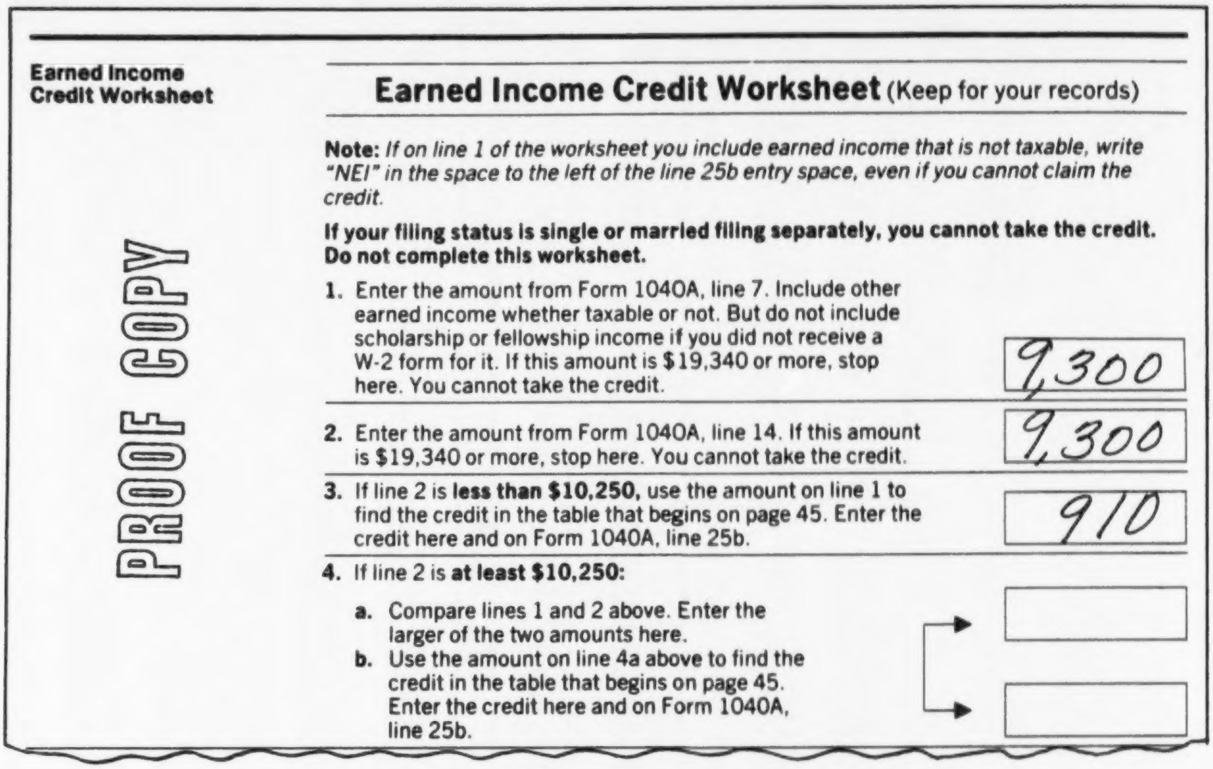
1989 Earned Income Credit Table *(continued)*

If line 1 or 2 of the worksheet is— At least	But less than	Your earned income credit is—
$11,725	$11,750	$760
11,750	11,775	758
11,775	11,800	755
11,800	11,825	753
11,825	11,850	750
11,850	11,875	748
11,875	11,900	745
11,900	11,925	743
11,925	11,950	740
11,950	11,975	738
11,975	12,000	735
12,000	12,025	733
12,025	12,050	730
12,050	12,075	728
12,075	12,100	725
12,100	12,125	723
12,125	12,150	720
12,150	12,175	718
12,175	12,200	715
12,200	12,225	713
12,225	12,250	710
12,250	12,275	708
12,275	12,300	705
12,300	12,325	703
12,325	12,350	700
12,350	12,375	698
12,375	12,400	695
12,400	12,425	693
12,425	12,450	690
12,450	12,475	688
12,475	12,500	685
12,500	12,525	683
12,525	12,550	680
12,550	12,575	678
12,575	12,600	675
12,600	12,625	673
12,625	12,650	670
12,650	12,675	668
12,675	12,700	665
12,700	12,725	663
12,725	12,750	660
12,750	12,775	658
12,775	12,800	655
12,800	12,825	653
12,825	12,850	650
12,850	12,875	648
12,875	12,900	645
12,900	12,925	643
12,925	12,950	640
12,950	12,975	638
12,975	13,000	635
13,000	13,025	633
13,025	13,050	630
13,050	13,075	628
13,075	13,100	625
13,100	13,125	623
13,125	13,150	620
13,150	13,175	618
13,175	13,200	615
13,200	13,225	613
13,225	13,250	610
13,250	13,275	608
13,275	13,300	605
13,300	13,325	603
$13,325	$13,350	$600
13,350	13,375	598
13,375	13,400	595
13,400	13,425	593
13,425	13,450	590
13,450	13,475	588
13,475	13,500	585
13,500	13,525	583
13,525	13,550	580
13,550	13,575	578
13,575	13,600	575
13,600	13,625	573
13,625	13,650	570
13,650	13,675	568
13,675	13,700	565
13,700	13,725	563
13,725	13,750	560
13,750	13,775	558
13,775	13,800	555
13,800	13,825	553
13,825	13,850	550
13,850	13,875	548
13,875	13,900	545
13,900	13,925	543
13,925	13,950	540
13,950	13,975	538
13,975	14,000	535
14,000	14,025	533
14,025	14,050	530
14,050	14,075	528
14,075	14,100	525
14,100	14,125	523
14,125	14,150	520
14,150	14,175	518
14,175	14,200	515
14,200	14,225	513
14,225	14,250	510
14,250	14,275	508
14,275	14,300	505
14,300	14,325	503
14,325	14,350	500
14,350	14,375	498
14,375	14,400	495
14,400	14,425	493
14,425	14,450	490
14,450	14,475	488
14,475	14,500	485
14,500	14,525	483
14,525	14,550	480
14,550	14,575	478
14,575	14,600	475
14,600	14,625	473
14,625	14,650	470
14,650	14,675	468
14,675	14,700	465
14,700	14,725	463
14,725	14,750	460
14,750	14,775	458
14,775	14,800	455
14,800	14,825	453
14,825	14,850	450
14,850	14,875	448
14,875	14,900	445
14,900	14,925	443
$14,925	$14,950	$440
14,950	14,975	438
14,975	15,000	435
15,000	15,025	433
15,025	15,050	430
15,050	15,075	428
15,075	15,100	425
15,100	15,125	423
15,125	15,150	420
15,150	15,175	418
15,175	15,200	415
15,200	15,225	413
15,225	15,250	410
15,250	15,275	408
15,275	15,300	405
15,300	15,325	403
15,325	15,350	400
15,350	15,375	398
15,375	15,400	395
15,400	15,425	393
15,425	15,450	390
15,450	15,475	388
15,475	15,500	385
15,500	15,525	383
15,525	15,550	380
15,550	15,575	378
15,575	15,600	375
15,600	15,625	373
15,625	15,650	370
15,650	15,675	368
15,675	15,700	365
15,700	15,725	363
15,725	15,750	360
15,750	15,775	358
15,775	15,800	355
15,800	15,825	353
15,825	15,850	350
15,850	15,875	348
15,875	15,900	345
15,900	15,925	343
15,925	15,950	340
15,950	15,975	338
15,975	16,000	335
16,000	16,025	333
16,025	16,050	330
16,050	16,075	328
16,075	16,100	325
16,100	16,125	323
16,125	16,150	320
16,150	16,175	318
16,175	16,200	315
16,200	16,225	313
16,225	16,250	310
16,250	16,275	308
16,275	16,300	305
16,300	16,325	303
16,325	16,350	300
16,350	16,375	298
16,375	16,400	295
16,400	16,425	293
16,425	16,450	290
16,450	16,475	288
16,475	16,500	285
16,500	16,525	283
$16,525	$16,550	$280
16,550	16,575	278
16,575	16,600	275
16,600	16,625	273
16,625	16,650	270
16,650	16,675	268
16,675	16,700	265
16,700	16,725	263
16,725	16,750	260
16,750	16,775	258
16,775	16,800	255
16,800	16,825	253
16,825	16,850	250
16,850	16,875	248
16,875	16,900	245
16,900	16,925	243
16,925	16,950	240
16,950	16,975	238
16,975	17,000	235
17,000	17,025	233
17,025	17,050	230
17,050	17,075	228
17,075	17,100	225
17,100	17,125	223
17,125	17,150	220
17,150	17,175	218
17,175	17,200	215
17,200	17,225	213
17,225	17,250	210
17,250	17,275	208
17,275	17,300	205
17,300	17,325	203
17,325	17,350	200
17,350	17,375	198
17,375	17,400	195
17,400	17,425	193
17,425	17,450	190
17,450	17,475	188
17,475	17,500	185
17,500	17,525	183
17,525	17,550	180
17,550	17,575	178
17,575	17,600	175
17,600	17,625	173
17,625	17,650	170
17,650	17,675	168
17,675	17,700	165
17,700	17,725	163
17,725	17,750	160
17,750	17,775	158
17,775	17,800	155
17,800	17,825	153
17,825	17,850	150
17,850	17,875	148
17,875	17,900	145
17,900	17,925	143
17,925	17,950	140
17,950	17,975	138
17,975	18,000	135
18,000	18,025	133
18,025	18,050	130
18,050	18,075	128
18,075	18,100	125
18,100	18,125	123
$18,125	$18,150	$120
18,150	18,175	118
18,175	18,200	115
18,200	18,225	113
18,225	18,250	110
18,250	18,275	108
18,275	18,300	105
18,300	18,325	103
18,325	18,350	100
18,350	18,375	98
18,375	18,400	95
18,400	18,425	93
18,425	18,450	90
18,450	18,475	88
18,475	18,500	85
18,500	18,525	83
18,525	18,550	80
18,550	18,575	78
18,575	18,600	75
18,600	18,625	73
18,625	18,650	70
18,650	18,675	68
18,675	18,700	65
18,700	18,725	63
18,725	18,750	60
18,750	18,775	58
18,775	18,800	55
18,800	18,825	53
18,825	18,850	50
18,850	18,875	48
18,875	18,900	45
18,900	18,925	43
18,925	18,950	40
18,950	18,975	38
18,975	19,000	35
19,000	19,025	33
19,025	19,050	30
19,050	19,075	28
19,075	19,100	25
19,100	19,125	23
19,125	19,150	20
19,150	19,175	18
19,175	19,200	15
19,200	19,225	13
19,225	19,250	10
19,250	19,275	8
19,275	19,300	5
19,300	19,325	3
19,325	19,340	1
$19,340 or more—you cannot take the credit		

Example

Dinah Cobb is filing as head of household and has a dependent child living with her. Her only income in 1989 was her wages of $9,300. Her earned income credit is computed on the worksheet shown in Exhibit 9.

Exhibit 9



Earned Income Credit Worksheet

PROOF COPY

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit. 9,300
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit. 9,300
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b. 910
4. If line 2 is **at least $10,250:**
   - **a.** Compare lines 1 and 2 above. Enter the larger of the two amounts here.
   - **b.** Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.

Example

Sue Clare files as head of household. She had wages of $10,950 and interest income of $300 in 1989. She has three dependent children who live with her. Her earned income credit is $808, computed as shown in Exhibit 10.

Exhibit 10

Earned Income Credit Worksheet

PROOF COPY

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

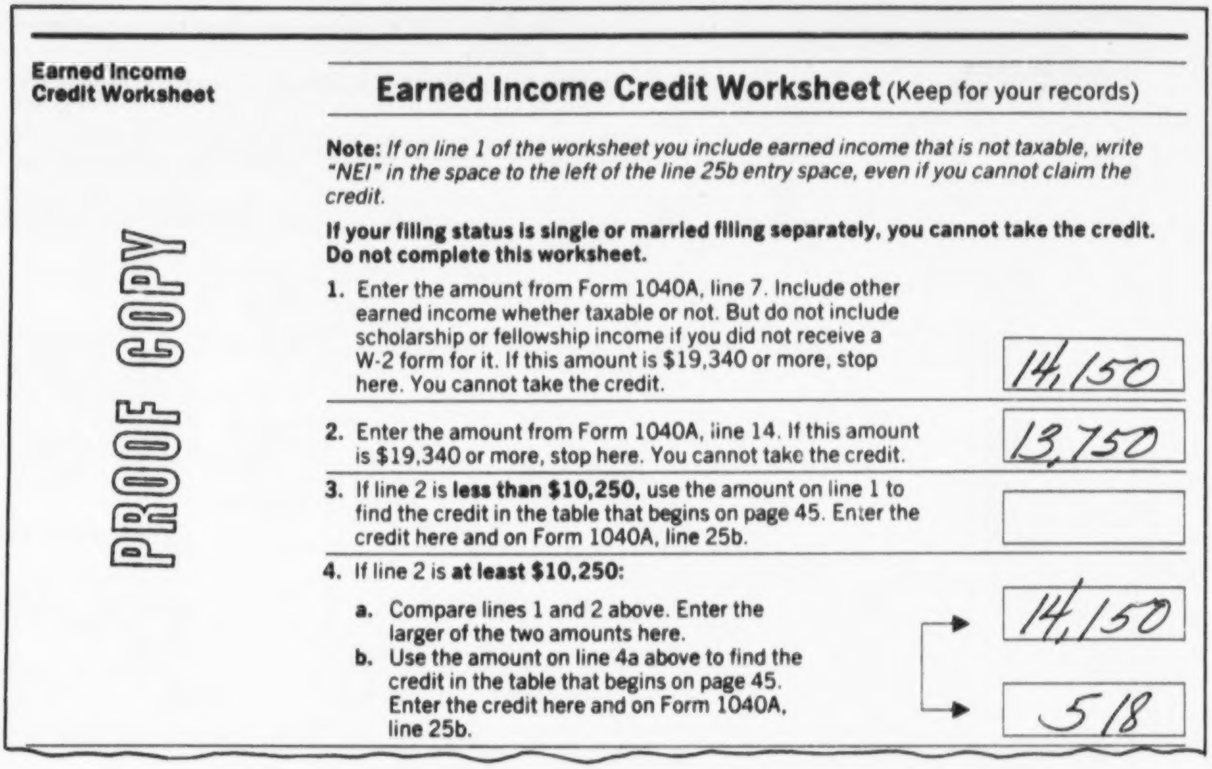
If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit.	10,950
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit.	11,250
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.	
4. If line 2 is **at least $10,250:**	
a. Compare lines 1 and 2 above. Enter the larger of the two amounts here.	11,250
b. Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.	808

Example

David and Nancy Boone are filing a joint return and have dependent children who lived with them. David had wages of $6,525 and Nancy had wages of $7,625 in 1989. Their earned income on line 7 is $14,150. Their adjusted gross income, line 14, is $13,750 after they take a deduction for Nancy's IRA contribution. Their earned income credit is computed on the worksheet (Exhibit 11) and they would enter $518 on line 25b of their Form 1040A.

Exhibit 11



Earned Income Credit Worksheet

PROOF COPY

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit. 14,150
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit. 13,750
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b. ☐
4. If line 2 is **at least $10,250:**
   - a. Compare lines 1 and 2 above. Enter the larger of the two amounts here. 14,150
   - b. Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b. 518

Exercise 6

Figure Jane's earned income credit on the worksheet provided (Exhibit 12). She files as qualifying widow and has a dependent child who lived with her all year. Jane had wages of $6,400 last year. Her adjusted gross income was $7,100.

Exhibit 12

Earned Income Credit Worksheet

PROOF COPY

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

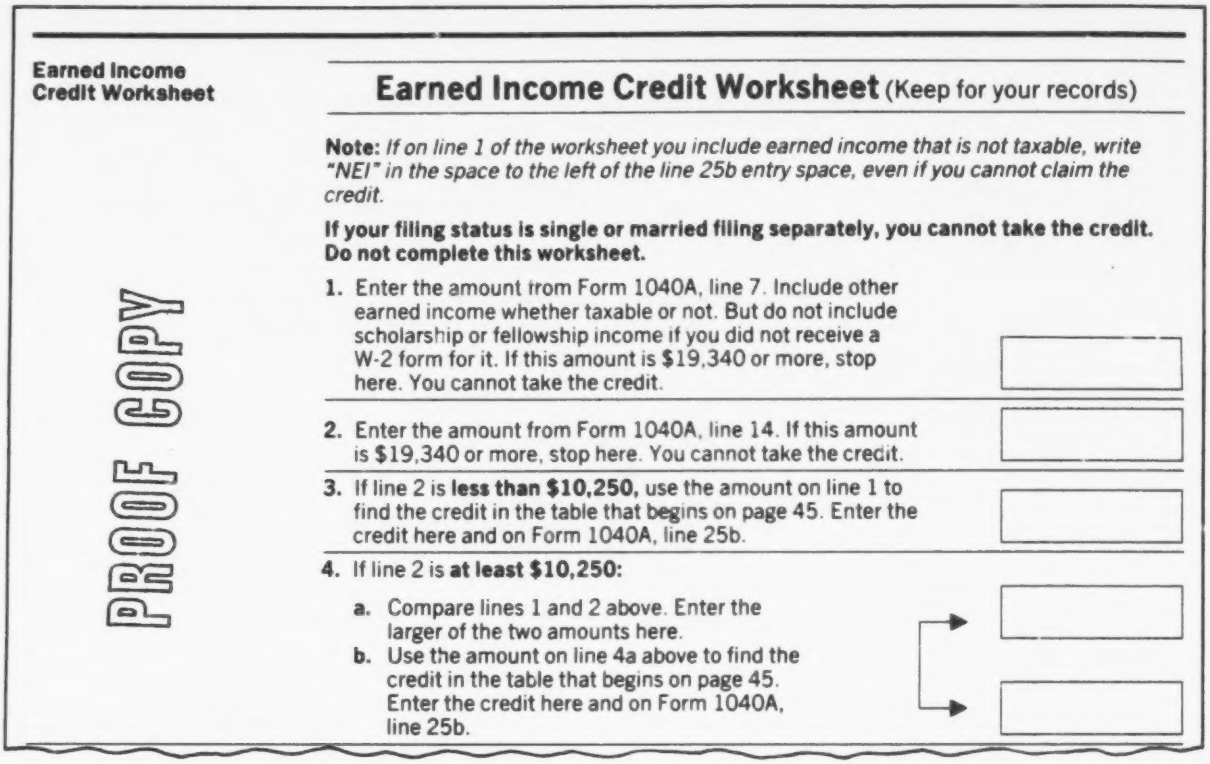
If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit.
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit.
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.
4. If line 2 is **at least $10,250:**
    - **a.** Compare lines 1 and 2 above. Enter the larger of the two amounts here.
    - **b.** Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.

Exercise 7

Figure the earned income credit for Bob. Use the worksheet from the Instructions to Form 1040A (Exhibit 13). He files as head of household and has a dependent child who lived with him all year. Bob had wages of $10,900 and interest income of $400 last year.

Exhibit 13



Earned Income Credit Worksheet

PROOF COPY

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

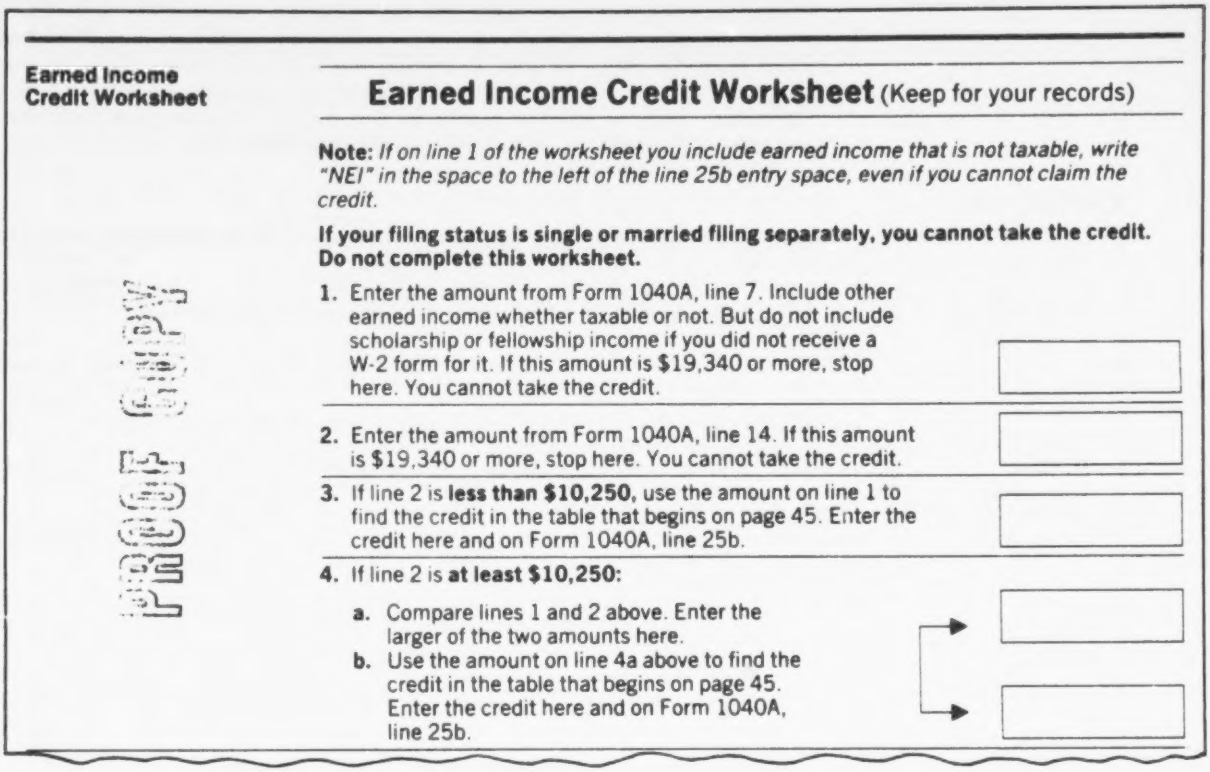
If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit. ☐
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit. ☐
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b. ☐
4. If line 2 is **at least $10,250:**
   - **a.** Compare lines 1 and 2 above. Enter the larger of the two amounts here. ☐
   - **b.** Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b. ☐

Exercise 8

Figure the earned income credit for Harvey and Sharon, who are filing a joint return and have a dependent child who lived with them all year. Harvey had wages of $12,000. Sharon had wages of $5,000. Together they had interest income of $400. Their adjusted gross income, line 14, is $15,700 after they take a deduction for Harvey's IRA contribution. Use the worksheet (Exhibit 14) provided.

Exhibit 14



Earned Income Credit Worksheet

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit.
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit.
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.
4. If line 2 is **at least $10,250:**
   - **a.** Compare lines 1 and 2 above. Enter the larger of the two amounts here.
   - **b.** Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.

PROOF COPY

Exercise 9

Judith and Leon Pasco are married and filing a joint return. They have two dependent children, Ann (SSN 234–00–5678) and Maria (SSN 235–00–6789), 3 and 4 years old respectively. Leon worked in 1989 and earned $13,892. They have no other income. Complete the following Form 1040A to line 26 (Exhibits 15 and 16). Leon's Form W–2 is reproduced as Exhibit 17. If you determine that the Pascos qualify for the earned income credit, use the worksheet (Exhibit 18) at the end of this exercise.

Exhibit 15

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 20) ______

No. of **other** dependents listed on 6c ______

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

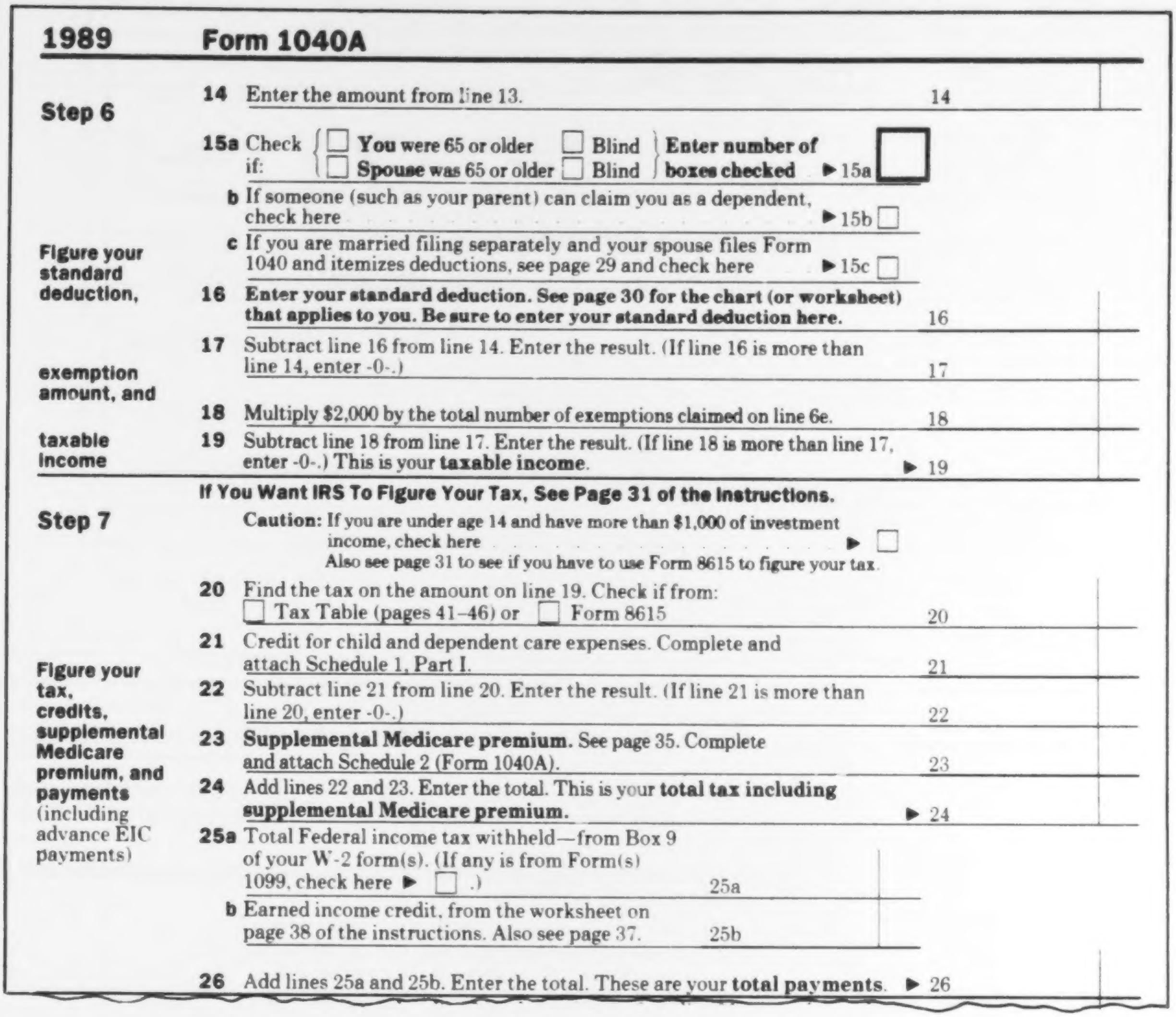
Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7 ______
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a ______
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b ______
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9 ______
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10 ______
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income.** ▶ 11 ______

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a ______
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b ______
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c ______
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income.** (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13 ______

Exhibit 16



1989 **Form 1040A**

Step 6

Figure your standard deduction, exemption amount, and taxable income

14 Enter the amount from line 13. 14

15a Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind } **Enter number of boxes checked** ▶ 15a ☐

b If someone (such as your parent) can claim you as a dependent, check here ▶ 15b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here ▶ 15c ☐

16 **Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 16

17 Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.) 17

18 Multiply $2,000 by the total number of exemptions claimed on line 6e. 18

19 Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income**. ▶ 19

If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

20 Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615 20

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) 22

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). 23

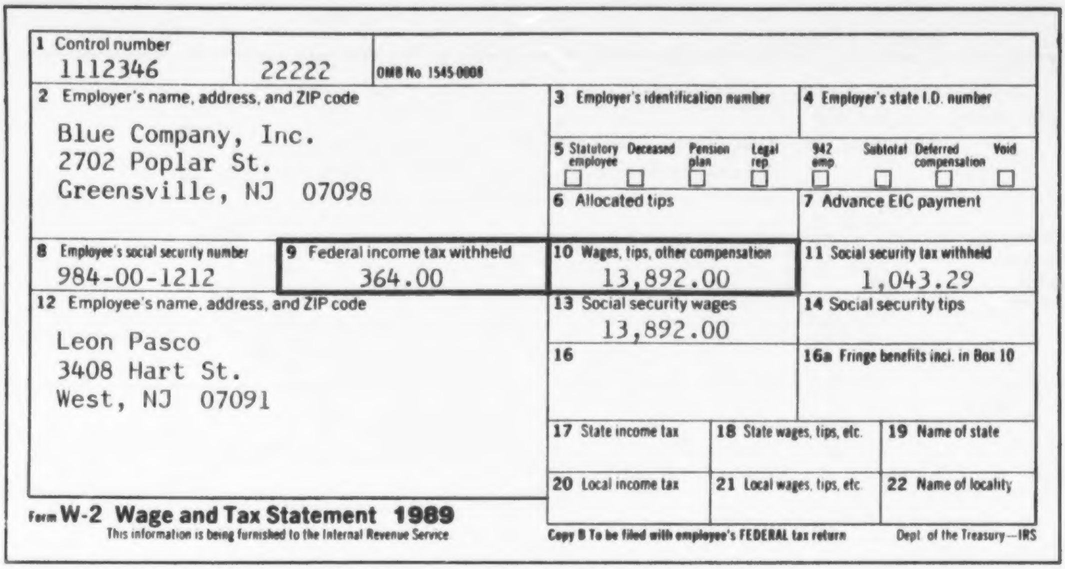
24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b

26 Add lines 25a and 25b. Enter the total. These are your **total payments**. ▶ 26

Exhibit 17



1 Control number
1112346
22222
OMB No 1545-0008

2 Employer's name, address, and ZIP code
Blue Company, Inc.
2702 Poplar St.
Greensville, NJ 07098

3 Employer's identification number

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
984-00-1212

9 Federal income tax withheld
364.00

10 Wages, tips, other compensation
13,892.00

11 Social security tax withheld
1,043.29

12 Employee's name, address, and ZIP code
Leon Pasco
3408 Hart St.
West, NJ 07091

13 Social security wages
13,892.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

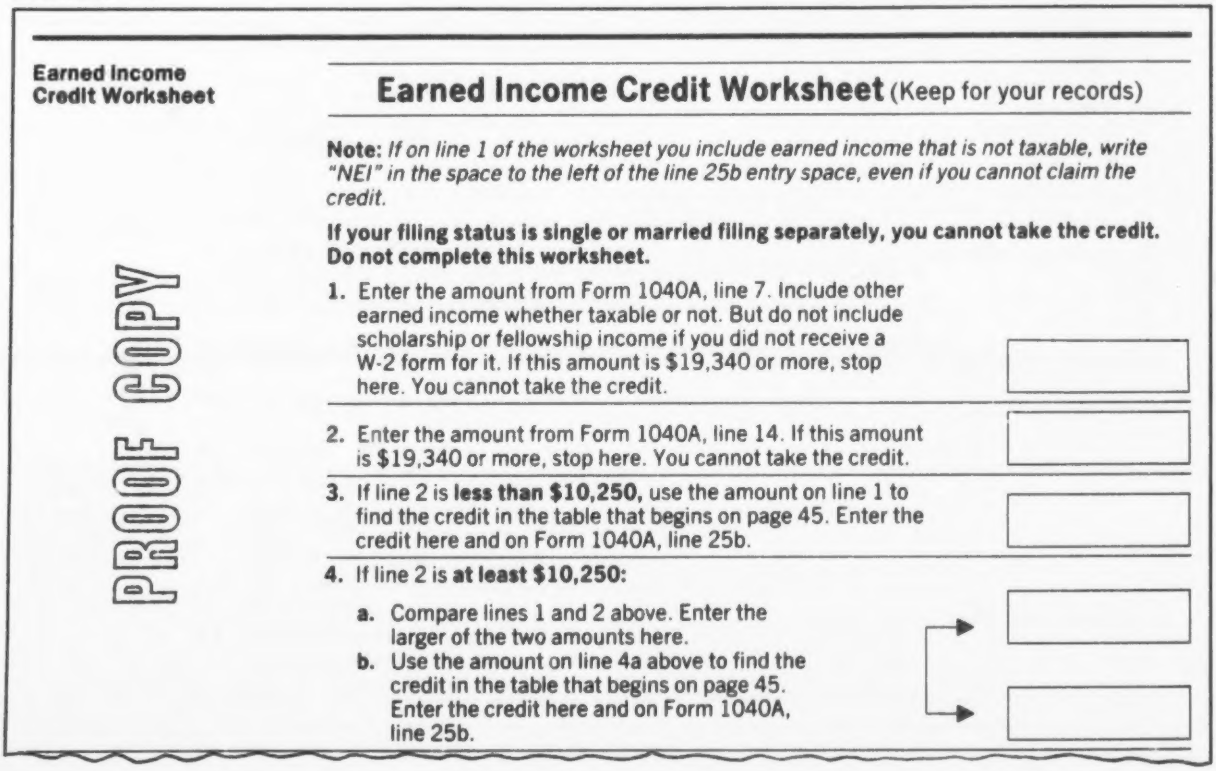
22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 18



Earned Income Credit Worksheet

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

PROOF COPY

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit.
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit.
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.
4. If line 2 is **at least $10,250:**
   - **a.** Compare lines 1 and 2 above. Enter the larger of the two amounts here.
   - **b.** Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.

Summary

Most Form 1040A filers had income tax withheld, and many of them can take credits that reduce their tax. Withheld income tax is a payment. The earned income credit is refundable, which means that the filer may be able to receive a refund even if no tax payment was made.

In this lesson you have learned what credits and payments the taxpayer can claim on Form 1040A and how to determine the amount of each one. In the next lesson you will learn how to compute the tax and determine whether there will be a refund or additional tax due.

Answers to Exercises

1. One. His daughter is not under 13.
2. See filled-in Exhibit 3.
3. See filled-in Exhibit 4.
4. $1,404.
5. a. No.
   b. Yes.
   c. No.
   d. Yes.
   e. No.
   f. Yes.
   g. No.
6. $898.
7. $803.
8. $233.
9. See filled-in Exhibits 15, 16, and 18.

Exhibit 3, filled-in

Part I **Child and dependent care expenses** (see page 32 of the instructions)

- If you are claiming the child and dependent care credit, complete lines 1 through 12 below. But if you received employer-provided dependent care benefits, first complete lines 13 through 20 on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete lines 1 and 2, below, and lines 13 through 20 on the back.

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* **Form 942** *for details.*

1 Persons or organizations who provided the care. (See the instructions.)

(a) Name	(b) Address (number, street, city, state, and ZIP code)	(c) Identification number (SSN or EIN)	(d) Amount paid (see instructions)
Karen's Kiddie Kare	456 Charles Avenue Berlin, MD 25789	10-6789101	2,800

(If you need more space, attach schedule.)

2 Add the amounts in column (d) of line 1 and enter the total. 2 2,800

3 Enter the number of qualifying persons who were cared for in 1989. You must have shared the same home with any person you claim. (See the instructions for the definition of a qualifying person.) 3 1

4 Enter the amount of **qualified** expenses you incurred and actually paid in 1989 for the care of the qualifying person. (See the instructions to find out which expenses qualify.) DO NOT ENTER MORE THAN $2,400 ($4,800 if you paid for the care of two or more qualifying persons). 4 2,400 –

5 Enter the excluded amount, if any, from line 19 on back. 5 – 0 – –

6 Subtract line 5 from line 4. Enter the result. If line 5 is equal to or more than line 4, STOP HERE; you cannot claim the credit. 6 2,400 –

7 You **must** enter your **earned income.** (See page 34 of the instructions for the definition of earned income.) 7 20,200 –

8 If you are married filing a joint return, you **must** enter your spouse's earned income. (If spouse was a full-time student or disabled, see the instructions for the amount to enter.) 8 18,500 –

9 If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here. 9 18,500 –

10
- If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here.
- All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here. 10 2,400 –

11 Enter the decimal amount from the table below that applies to the amount on Form 1040A, line 14.

If line 14 is: Over— But not over—	Decimal amount is:	If line 14 is: Over— But not over—	Decimal amount is:
$0—10,000	.30	$20,000—22,000	.24
10,000—12,000	.29	22,000—24,000	.23
12,000—14,000	.28	24,000—26,000	.22
14,000—16,000	.27	26,000—28,000	.21
16,000—18,000	.26	28,000	.20
18,000—20,000	.25		

11 × .20

12 Multiply the amount on line 10 by the decimal amount on line 11. Enter the result here and on Form 1040A, line 21. 12 = 480 –

Exhibit 4, filled-in

Part I **Child and dependent care expenses** (see page 32 of the instructions)

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* **Form 942** *for details.*

- If you are claiming the child and dependent care credit, complete lines 1 through 12 below. But if you received employer-provided dependent care benefits, first complete lines 13 through 20 on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete lines 1 and 2, below, and lines 13 through 20 on the back.

1 Persons or organizations who provided the care. (See the instructions.)

(a) Name	**(b)** Address (number, street, city, state, and ZIP code)	**(c)** Identification number (SSN or EIN)	**(d)** Amount paid (see instructions)
Dot's Day Care Center	555 Lincoln Ct. Grant, IL 66677	10-1861234	3,600

(If you need more space, attach schedule.)

2 Add the amounts in column (d) of line 1 and enter the total. 2 3,600 —

3 Enter the number of qualifying persons who were cared for in 1989. You must have shared the same home with any person you claim. (See the instructions for the definition of a qualifying person.) 3 2

4 Enter the amount of **qualified** expenses you incurred and actually paid in 1989 for the care of the qualifying person. (See the instructions to find out which expenses qualify.) DO NOT ENTER MORE THAN $2,400 ($4,800 if you paid for the care of two or more qualifying persons). 4 3,600 —

5 Enter the excluded amount, if any, from line 19 on back. 5 —

6 Subtract line 5 from line 4. Enter the result. If line 5 is equal to or more than line 4, STOP HERE; you cannot claim the credit. 6 3,600 —

7 You **must** enter your **earned income.** (See page 34 of the instructions for the definition of earned income.) 7 10,225 —

8 If you are married filing a joint return, you **must** enter your spouse's earned income. (If spouse was a full-time student or disabled, see the instructions for the amount to enter.) 8 8,775 —

9 If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here. 9 8,775 —

10
- If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here.
- All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here. 10 3,600 —

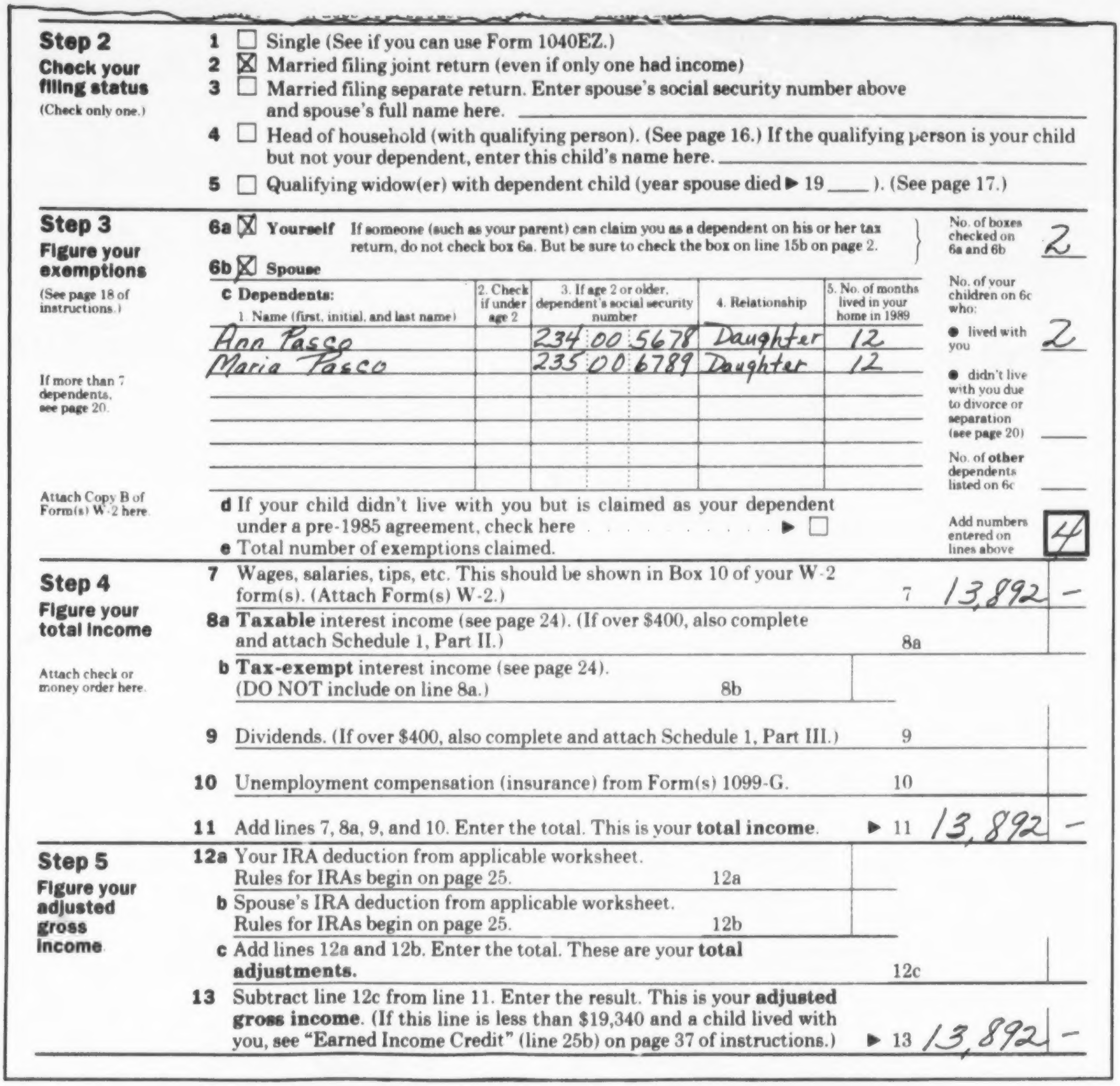
11 Enter the decimal amount from the table below that applies to the amount on Form 1040A, line 14.

If line 14 is: Over— But not over—	**Decimal amount is:**	**If line 14 is:** Over— But not over—	**Decimal amount is:**
$0—10,000	.30	$20,000—22,000	.24
10,000—12,000	.29	22,000—24,000	.23
12,000—14,000	.28	24,000—26,000	.22
14,000—16,000	.27	26,000—28,000	.21
16,000—18,000	.26	28,000	.20
18,000—20,000	.25		

11 × 25

12 Multiply the amount on line 10 by the decimal amount on line 11. Enter the result here and on Form 1040A, line 21. 12 = 900 —

Exhibit 15, filled-in



Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☒ **Spouse**

No. of boxes checked on 6a and 6b 2

c Dependents:

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989
Ann Pasco		234 00 5678	Daughter	12
Maria Pasco		235 00 6789	Daughter	12

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you 2
- didn't live with you due to divorce or separation (see page 20) ____

No. of **other** dependents listed on 6c ____

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above 4

Step 4
Figure your total income

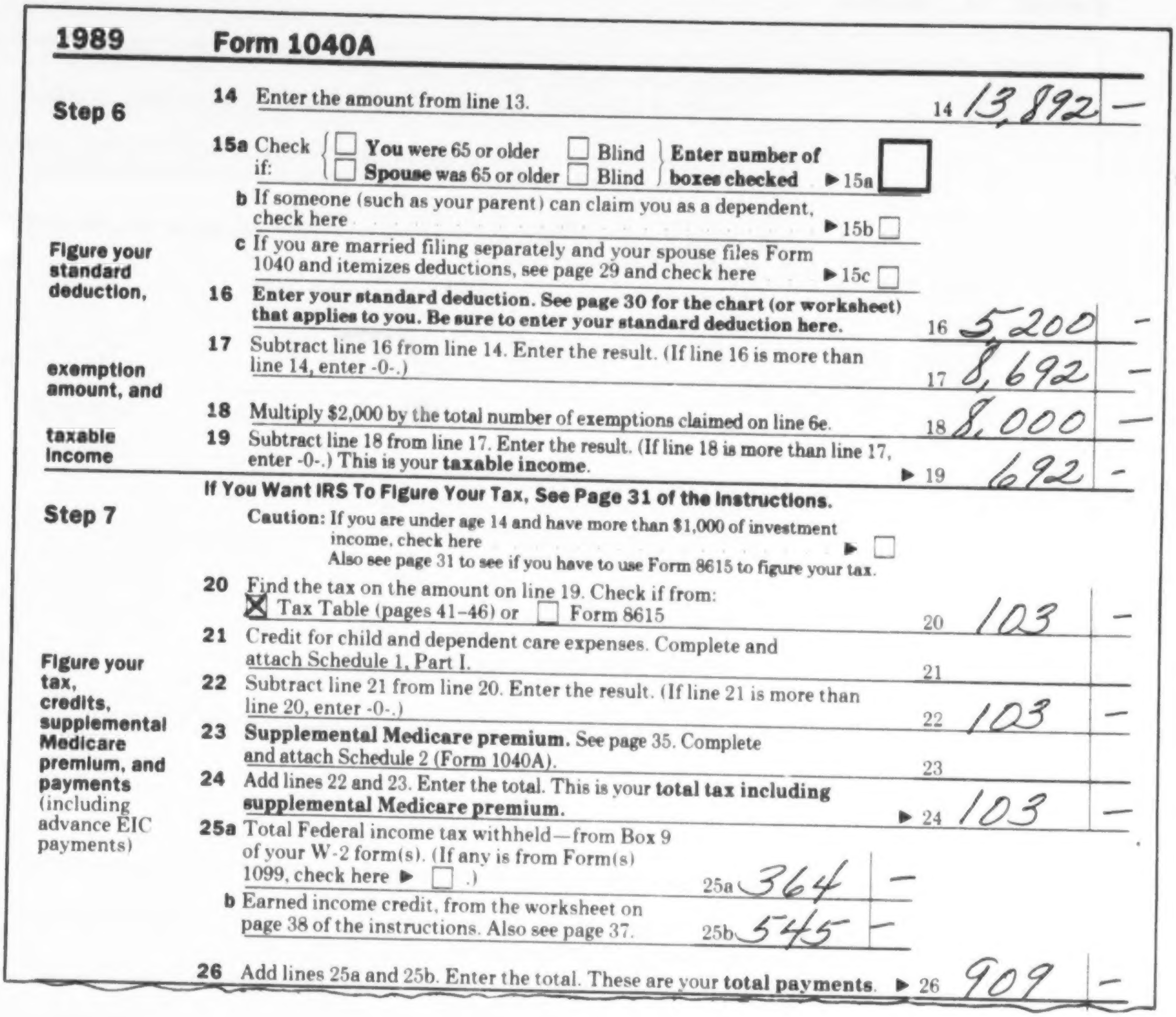
Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7 13,892 -
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11 13,892 -

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13 13,892 -

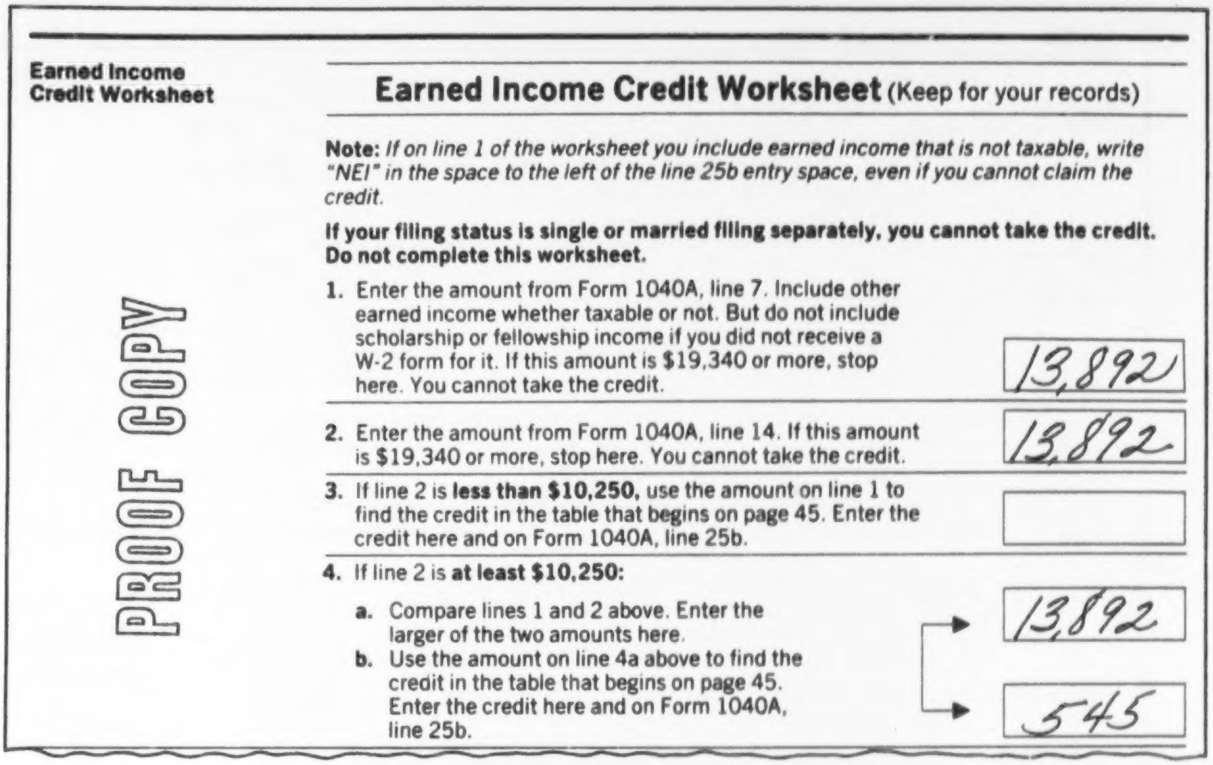
Exhibit 16, filled-in



1989 **Form 1040A**

Step 6	**14**	Enter the amount from line 13.	14	13,892	-
	15a	Check if: ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind } **Enter number of boxes checked**	▶ 15a ☐		
	b	If someone (such as your parent) can claim you as a dependent, check here	▶ 15b ☐		
Figure your standard deduction,	**c**	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 29 and check here	▶ 15c ☐		
	16	**Enter your standard deduction. See page 30 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.**	16	5,200	-
exemption amount, and	**17**	Subtract line 16 from line 14. Enter the result. (If line 16 is more than line 14, enter -0-.)	17	8,692	-
	18	Multiply $2,000 by the total number of exemptions claimed on line 6e.	18	8,000	-
taxable income	**19**	Subtract line 18 from line 17. Enter the result. (If line 18 is more than line 17, enter -0-.) This is your **taxable income.**	▶ 19	692	-
Step 7		**If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.** **Caution:** If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐ Also see page 31 to see if you have to use Form 8615 to figure your tax.			
	20	Find the tax on the amount on line 19. Check if from: ☒ Tax Table (pages 41–46) or ☐ Form 8615	20	103	-
Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)	**21**	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I.	21		
	22	Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.)	22	103	-
	23	**Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A).	23		
	24	Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.**	▶ 24	103	-
	25a	Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐ .) 25a 364 -			
	b	Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. 25b 545 -			
	26	Add lines 25a and 25b. Enter the total. These are your **total payments.**	▶ 26	909	-

Exhibit 18, filled-in



Earned Income Credit Worksheet

PROOF COPY

Earned Income Credit Worksheet (Keep for your records)

Note: *If on line 1 of the worksheet you include earned income that is not taxable, write "NEI" in the space to the left of the line 25b entry space, even if you cannot claim the credit.*

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040A, line 7. Include other earned income whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. If this amount is $19,340 or more, stop here. You cannot take the credit.	13,892
2. Enter the amount from Form 1040A, line 14. If this amount is $19,340 or more, stop here. You cannot take the credit.	13,892
3. If line 2 is **less than $10,250,** use the amount on line 1 to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.	
4. If line 2 is **at least $10,250:**	
a. Compare lines 1 and 2 above. Enter the larger of the two amounts here.	13,892
b. Use the amount on line 4a above to find the credit in the table that begins on page 45. Enter the credit here and on Form 1040A, line 25b.	545

Lesson 12

Finishing the Return

Objectives

At the end of this lesson you will be able to:

1. Complete the taxpayer identification section of Form 1040A.
2. Explain the signature section to a taxpayer.
3. Use the proper VITA or TCE designation.
4. Review the return for completeness and accuracy.
5. Assemble the return.

Contents

Introduction

Taxpayer Identification Section

Presidential Election Campaign Fund

Signature

VITA or VITA-T

TCE or TCE-X

Reviewing the Return

Assembling the Return

Summary

Introduction

All that is left to do on the return is to make sure that the taxpayer identification section, Step 1, is filled in, that the taxpayer signs the return, Step 9, and that you use the right program designation.

Taxpayer Identification Section

We have waited until the final lesson on Form 1040A to study Step 1 because this is one of the last sections to complete. Filling it in last saves time because some taxpayers will give you more information after you start preparing the return, and you may have to fill out a new form.

* The taxpayer identification section includes the taxpayer's name, address, and social security number. The second line in this section is for the taxpayer's spouse to fill in when a joint return is filed. The address on the return is the address where any refund or notices will be sent. If the taxpayer filed a return last year, he or she should have received this year's forms package in the mail with a preaddressed label for the return. Use the label if the taxpayer brings it in, because using it saves processing time. The label shows the taxpayer's name, address, and social security number. Mark through any errors on the label and print the correct information right on the label.

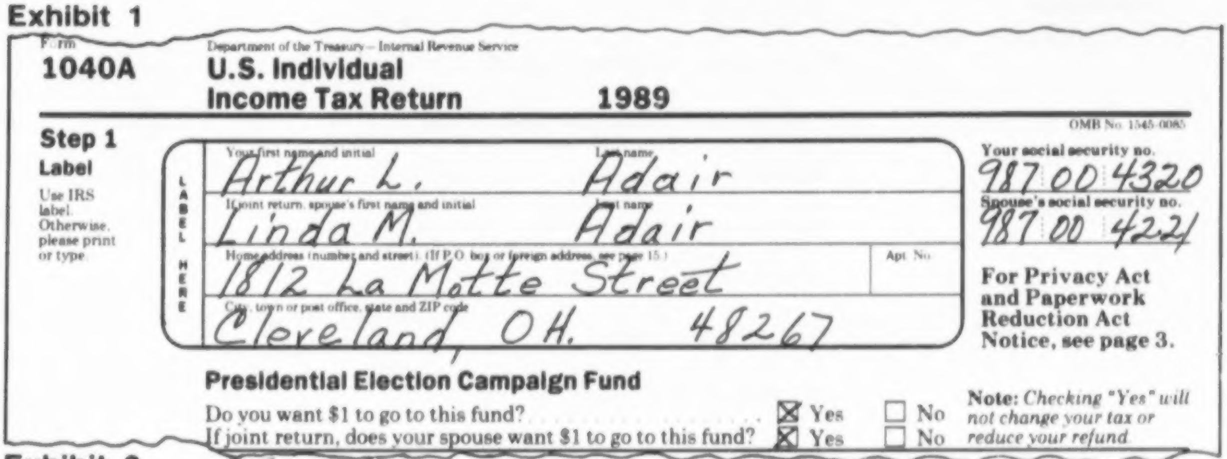
If you meet taxpayers who do not have a social security number, they must apply for one on Form SS-5, *Application for a Social Security Number Card.* They can get the form at any Social Security Administration office. U.S. citizens must show proof of age, identity, and citizenship when they apply for the number. If they are 18 or older, they must appear in person. If they have not received the number by the date the return is due, they should file the return anyway, and write "Applied for" in the space for the number.

If the post office delivers mail to the taxpayer's P.O. box rather than to a street address, enter the P.O. box number on the line for the present home address.

Joint Returns

The following examples show how the identification section should look on a joint return. The second example (see Exhibit 2) shows how to fill in the names if the husband and wife use different last names. Make sure the spouse fills in his or her complete name. On any joint return, it is important to write the social security numbers in the same order as the names. Not doing this will considerably delay the processing. For example, if you write the husband's name first, write his social security number first also.

Exhibit 1



Form **1040A**
Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**
OMB No. 1545-0085

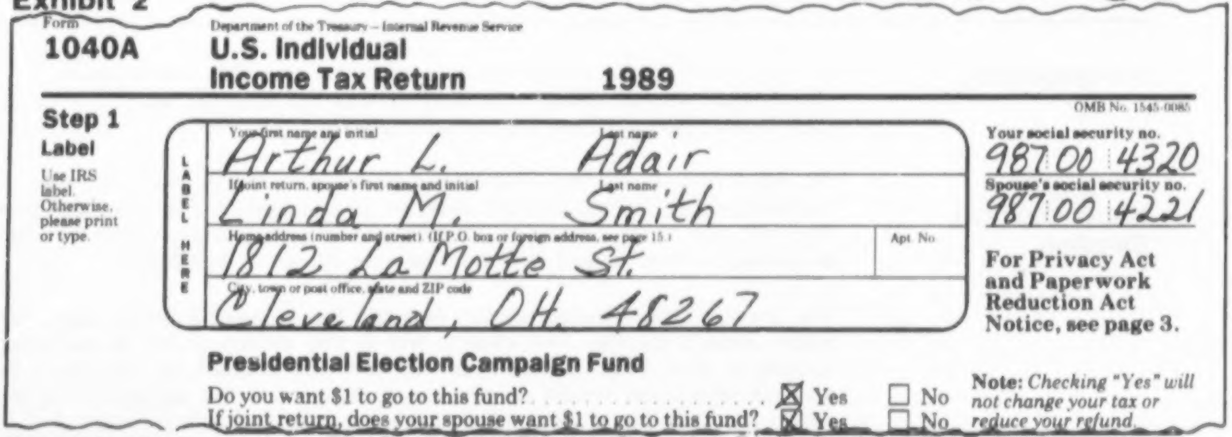
Step 1
Label
Use IRS label. Otherwise, please print or type.
LABEL HERE

Your first name and initial: Arthur L.
Last name: Adair
Your social security no.: 987 00 4320
If joint return, spouse's first name and initial: Linda M.
Last name: Adair
Spouse's social security no.: 987 00 4221
Home address (number and street). (If P.O. box or foreign address, see page 15.): 1812 La Motte Street
Apt. No.:
City, town or post office, state and ZIP code: Cleveland, OH. 48267

For Privacy Act and Paperwork Reduction Act Notice, see page 3.

Presidential Election Campaign Fund
Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Exhibit 2



Form **1040A**
Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**
OMB No. 1545-0085

Step 1
Label
Use IRS label. Otherwise, please print or type.
LABEL HERE

Your first name and initial: Arthur L.
Last name: Adair
Your social security no.: 987 00 4320
If joint return, spouse's first name and initial: Linda M.
Last name: Smith
Spouse's social security no.: 987 00 4221
Home address (number and street). (If P.O. box or foreign address, see page 15.): 1812 La Motte St.
Apt. No.:
City, town or post office, state and ZIP code: Cleveland, OH. 48267

For Privacy Act and Paperwork Reduction Act Notice, see page 3.

Presidential Election Campaign Fund
Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Presidential Election Campaign Fund

The Presidential Election Campaign Fund question follows the taxpayer identification section. This question confuses some taxpayers. By checking "Yes," the taxpayer gives permission for $1 to go to the Presidential Election Campaign Fund. On a joint return, each taxpayer chooses whether $1 should go to the fund. Checking "Yes" will not change the tax or refund shown on the return.

Signature

The taxpayer must sign and date the return, or it cannot be processed. Both spouses must sign a joint return, even if only one had income.

Occupation

Filling in occupations is part of completing a return. Let taxpayers tell you their occupations, and record them in the same words.

VITA or VITA-T TCE or TCE-X

On each return you prepare in the VITA program, write "VITA" in the paid preparer's section. If the taxpayer prepares the return with your help, write "VITA-T." Do not sign your name. Many VITA sites have a supply of returns with the VITA designation preprinted.

If you are a TCE volunteer, you should write "TCE" in the paid preparer's section, and if the taxpayer at a TCE site prepares the return with your help, write "TCE-X." Many TCE sites also supply returns with the volunteer designation preprinted.

Note: Detailed instructions for identifying returns with VITA and TCE designations are in the Administrative Procedures lesson in Module I.

Reviewing the Return

You will want to review the return for accuracy and completeness. Make sure you transferred the right amounts to Form 1040A from the taxpayer's Forms W-2, 1099, etc. Use a calculator to verify your math computations, and refer to the following Quality Review Checklist. When you finish, have another volunteer or quality reviewer at the site look over the return.

Quality Review Checklist

1. Are the name, address, and social security number blocks completed accurately?
2. Is the Presidential Election Campaign Fund box checked?
3. Is the filing status correct?
4. Are the exemptions checked, listed, and added correctly?
5. Are social security numbers entered for dependents age 2 or older?
6. Are the income items entered correctly to arrive at total income?
7. Is there any tax-exempt interest to be shown on the return?
8. Has the correct tax been selected from the Tax Table?
9. Is the taxpayer required to pay a supplemental Medicare premium? If so, is the amount figured correctly?
10. Does the withheld tax shown on the return agree with Forms W-2, 1099-INT, and 1099-DIV?
11. Is the refund or balance due figured correctly?
12. Did the taxpayer sign and date the return?
13. Are the occupation spaces filled in?
14. Are all Forms W-2 attached to the return?
15. Is the return identified "VITA" or "TCE" in the paid preparer's block?

Assembling the Return

Forms W-2

Staple Copy B of all Forms W-2 and W-2P right side up in the left margin of Form 1040A where indicated. Do not attach any Forms 1099 to the income tax return. The taxpayer should keep the Forms 1099, Copy C of Form W-2 or W-2P, and his or her own copy of the completed return, for at least 3 years.

Payments

If the taxpayer makes a payment with the return, advise the taxpayer to make the check or money order payable to "Internal Revenue Service," to write the social security number, day-time telephone number, form number (Form 1040, 1040A, or 1040EZ), and year of the return (1989) on the payment, and to attach the payment to the left margin of Form 1040A where indicated.

Summary

This lesson covers the last parts to complete on Form 1040A: the taxpayer identification section, the Presidential Election Campaign Fund block, the signature section, the VITA or TCE designation, and the quality review.

Go on to Module III if you will be helping taxpayers with Form 1040.

Form
1040A

Department of the Treasury – Internal Revenue Service

U.S. Individual Income Tax Return

1989

PROOF COPY

OMB No. 1545-0085

Step 1
Label
Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name

If joint return, spouse's first name and initial | Last name

Home address (number and street). (If P.O. box or foreign address, see page 15.) | Apt. No.

City, town or post office, state and ZIP code

Your social security no.

Spouse's social security no.

For Privacy Act and Paperwork Reduction Act Notice, see page 3.

Presidential Election Campaign Fund

Do you want $1 to go to this fund? ☐ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ______
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Step 3
Figure your exemptions
(See page 18 of instructions.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 15b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c **Dependents:**

1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Relationship	5. No. of months lived in your home in 1989

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If more than 7 dependents, see page 20.

No. of your children on 6c who:
● lived with you ______
● didn't live with you due to divorce or separation (see page 20) ______
No. of **other** dependents listed on 6c ______

Attach Copy B of Form(s) W-2 here.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Step 4
Figure your total income

Attach check or money order here.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 7
8a **Taxable** interest income (see page 24). (If over $400, also complete and attach Schedule 1, Part II.) 8a
b **Tax-exempt** interest income (see page 24). (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part III.) 9
10 Unemployment compensation (insurance) from Form(s) 1099-G. 10
11 Add lines 7, 8a, 9, and 10. Enter the total. This is your **total income**. ▶ 11

Step 5
Figure your adjusted gross income

12a Your IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12a
b Spouse's IRA deduction from applicable worksheet. Rules for IRAs begin on page 25. 12b
c Add lines 12a and 12b. Enter the total. These are your **total adjustments.** 12c
13 Subtract line 12c from line 11. Enter the result. This is your **adjusted gross income**. (If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 25b) on page 37 of instructions.) ▶ 13

Module III

Lesson 1

Who Files Form 1040

Objective

At the end of this lesson you will be able to determine who must or should file Form 1040.

Contents

Introduction

Who Files Form 1040

Summary

Answers to Exercises

Introduction

Module II, Lesson 7, explained when a taxpayer may file Form 1040A, and Module II, Lesson 1, explained when a taxpayer may file Form 1040EZ. Other taxpayers file Form 1040. Some of them must file it, and some of them should file it to take deductions, adjustments, or credits not available on the other two forms. Publication 17 explains in detail who must or should file Form 1040.

Who Files Form 1040

In Module II you learned questions to ask about taxable income, age, blindness and filing status, to see whether the person must file a return. To see whether Form 1040 is the correct return, you will also need to ask about specific types of income, deductions, credits, and payments.

Example

Bob and Mary Hinsdale will report the following items on their return.

Income:	
Salaries	$40,000
Interest	500
Ordinary dividends	300
Nontaxable dividends	50
Lottery winnings	1,000
Adjustments:	
IRA contributions	$3,000
Penalty for early withdrawal of savings	30
Itemized deductions:	$6,500
Payments:	
Tax withheld	$6,000

They must file Form 1040 to report the nontaxable dividends, the lottery winnings, and the penalty for early withdrawal of savings, and to itemize deductions.

Exhibit 1

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial Last name

If joint return, spouse's first name and initial Last name

Home address (number and street) (If P.O. box, see page 7.) Apt. no.

City, town, or post office, state and ZIP code (If foreign address, see page 7.)

Your social security number

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign ▶	Do you want $1 to go to this fund?	Yes ▨	No
	If joint return, does your spouse want $1 to go to this fund?	Yes ▨	No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ **Married filing separate return. Enter spouse's social security no. above and full name here.** ____
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.

b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

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No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of **other** dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b	▨	
9	Dividend income *(also attach Schedule B if over $400)*	9	
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions 16a ____ 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a ____ 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits 21a ____ 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13)	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

Adjustments to Income

(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name ____ and **b** social security number ____	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	

Exhibit 2

Form 1040 (1989)

Tax Computation	32	Amount from line 31 (adjusted gross income)		32
	33a	Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here ▶ 33a ☐		
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 33b ☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶ 33c ☐		
	34	Enter the **larger** of: • Your **standard deduction** (from page 17 of the Instructions), **OR** • Your **itemized deductions** (from Schedule A, line 26). If you itemize, attach Schedule A and check here ▶ ☐		34
	35	Subtract line 34 from line 32. Enter the result here		35
	36	Multiply $2,000 by the total number of exemptions claimed on line 6e		36
	37	**Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) **Caution:** If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.		37
	38	Enter tax. Check if from: **a** ☐ Tax Table, **b** ☐ Tax Rate Schedules, or **c** ☐ Form 8615. (If any is from Form(s) 8814, enter that amount here ▶ **d** ________)		38
	39	Additional taxes. Check if from: **a** ☐ Form 4970 **b** ☐ Form 4972		39
	40	Add lines 38 and 39. Enter the total ▶		40
Credits (See Instructions on page 18.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41	
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42	
	43	Foreign tax credit *(attach Form 1116)*	43	
	44	General business credit. Check if from: **a** ☐ Form 3800 or **b** ☐ Form (specify) ________	44	
	45	Credit for prior year minimum tax *(attach Form 8801)*	45	
	46	Add lines 41 through 45. Enter the total		46
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶		47
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*		48
	49	Alternative minimum tax *(attach Form 6251)*		49
	50	Recapture taxes (see page 18). Check if from: **a** ☐ Form 4255 **b** ☐ Form 8611		50
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*		51
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*		52
	53	Add lines 47 through 52. Enter the total ▶		53
Medicare Premium	54	Supplemental Medicare premium *(attach Form 8808)*		54
	55	Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶		55
Payments Attach Forms W-2, W-2G, and W-2P to front.	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56	
	57	1989 estimated tax payments and amount applied from 1988 return	57	
	58	Earned income credit (see page 19)	58	
	59	Amount paid with Form 4868 (extension request)	59	
	60	Excess social security tax and RRTA tax withheld (see page 20)	60	
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61	
	62	Regulated investment company credit *(attach Form 2439)*	62	
	63	Add lines 56 through 62. These are your **total payments** ▶		63
Refund or Amount You Owe	64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶		64
	65	Amount of line 64 to be **REFUNDED TO YOU** ▶		65
	66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶	66	
	67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it		67
	68	Penalty for underpayment of estimated tax (see page 21)	68	

Sign Here

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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Exercise 1

Review the sample interview questions and answers in this exercise. You may find them useful in getting the information you need from the person you are helping. As you get further into the lessons, you will also learn other questions to ask the taxpayer. It is a good idea to repeat the information back to the taxpayer to be sure that it is correct.

Sample questions	Sample answers
1. Are you married?	Yes
2. Are you 65 or over? (Do not ask obviously young people this question.)	Yes
3. Is your spouse 65 or over?	No—wife died 4 years ago.
4. Do you have other dependents?	No
5. Are you partially or totally blind?	No
6. What kinds of income did you receive during 1989? (Specify the year, because taxpayers may include income they received after the tax year ended.)	$13,500 pension that was partially taxable ($3,000 nontaxable), and $3,000 in bank interest
7. Do you have any adjustments to income? (Go over the *Adjustments to Income* section.)	No
8. Will you itemize your deductions?	No
9. Will you be claiming any tax credits? (Go over *Credits* section. Don't forget earned income credit and child and dependent care credit if taxpayer has a child.)	No
10. Do you have other taxes?	No
11. Did you have federal taxes withheld?	$1,000 withheld from pension
12. Did you make estimated tax payments to IRS?	No

a. Should this person file a return? (Be able to explain why or why not to the taxpayer.)

Answer

b. Which tax form should this person use?

Answer

Exercise 2

A taxpayer gives you the following information:

1. Single, under 65
2. Wages, $4,800

3. No dependents
4. Is not interested in giving $1 to the Presidential Election Campaign Fund
5. Shares apartment with a roommate who pays part of the rent and utilities
6. Received $700 in unemployment compensation during the year
7. Does not have enough deductions to itemize: withheld state income tax, $50; no medical; no interest expense; no contributions
8. No credits to claim
9. No other taxes
10. Federal income tax withheld, $100
    a. Should this person file a return?

Answer

b. Which tax form should this person use? Why?

Answer

Exercise 3

A taxpayer gives you the following information:

1. Married, both spouses under 65; wants to file jointly
2. Presidential Campaign Fund: Yes for both
3. Dependents: Two children, Phillip and Alice, ages 4 and 6
4. No other dependents
5. Wages: $20,000 for taxpayer and $16,000 for spouse; no other income
6. Job-related moving expenses: $8,000
7. Paid $1,000 expenses for a babysitter when both were working
8. Doesn't think they qualify for any other credits
9. No other taxes
10. Federal income tax was withheld from both wages
    a. Should this person file a return?

Answer

b. Which tax form should this person use? Why?

Answer

Exercise 4

Another taxpayer tells you the following:

1. Single, under 65
2. Has one child, Ann, single, age 22, who lived with her for more than 6 months of the year
3. No dependents
4. Received wages of $15,000
5. Interest income of $600
6. Received no other income
7. Penalty for early withdrawal of savings, $80
8. Does not want to itemize
9. Has no other tax credits or taxes
10. Federal income tax withheld from wages

a. Should this person file a return?

Answer

b. Which tax form should this person use? Why?

Answer

Summary

This lesson gave you practice in interviewing taxpayers to decide who must or should use Form 1040, and why.

Answers to Exercises

1. a. Yes. Explain to the person you are helping that a federal income tax return for a single person 65 or over is required if gross income is at least $5,850.
   Note: The taxpayer told you that he is married; but remember that when you asked about his wife, you discovered that she died 4 years ago. Don't let the taxpayer confuse you by giving you a wrong answer unintentionally, as happened in this example.
   b. Form 1040. This taxpayer has partially taxable pension income that must be reported on Form 1040.
2. a. Yes. The filing requirement for a single taxpayer under 65 is $5,100.
   b. Form 1040A is the correct form. There is no need to use Form 1040 since all the information you received during this interview with the taxpayer can go on Form 1040A. The taxpayer cannot use Form 1040EZ because he or she received unemployment compensation.
3. a. Yes. The filing requirement is $9,200 for married taxpayers filing jointly who are under 65.
   b. Form 1040. The wages and the child care expenses could go on either Form 1040A or Form 1040. However, the job-related moving expenses can be claimed only on Schedule A, Form 1040. A social security number is needed for Alice and Phillip.
4. a. Yes. Taxpayer may file as head of household. The filing requirement for a head of household under 65 is $6,550.
   b. Form 1040. The one item that makes it necessary to file Form 1040 is the claiming of an adjustment for the penalty for early withdrawal of savings.

Module III

Lesson 2

Filing Status and Exemptions

Objective

At the end of this lesson you will be able to complete the *Filing Status* and *Exemptions* sections of Form 1040.

Contents

Introduction

Exemptions

Summary

Answers to Exercises

Introduction

The *Filing Status* and *Exemptions* sections on Form 1040 include all items you learned about on Form 1040A, and the same rules apply.

Exemptions

The *Exemptions* section of Form 1040 contains the same items as are on Form 1040A. The same rules apply (see Module II, Lesson 4):

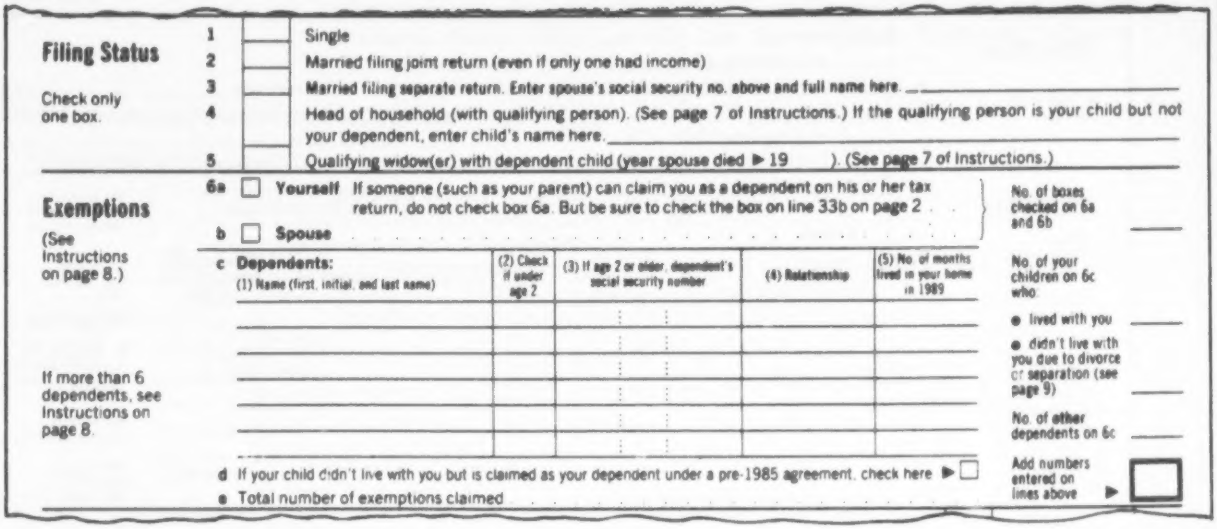
Lines 6a and 6b—Personal exemptions are exemptions claimed only for the taxpayer and his or her spouse.

Line 6c—Dependency exemptions are exemptions the taxpayer may claim for other qualifying people. In this part, the taxpayer must list the social security number of any dependent claimed who is age 2 or older.

Example

Mary Pine's husband died in 1988, and she filed a joint income tax return for that year. Her two dependent children, John E. and Ann E., both under age 2, live with her. She wants help with filing her return for 1989. To determine Mary's most beneficial filing status you ask, "Have you remarried?" and "During 1989 did you pay more than half of the cost of keeping up your home, which was the principal home of the children for the entire year?" If Mary answers "No" to the first question and "Yes" to the second, she qualifies as a widow with a dependent child for 1989 and possibly for 1990. Look at Mary's completed *Filing Status* and *Exemptions* sections in Exhibit 1.

Exhibit 1



Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____________
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Exercise 1

Which of the following filing statuses is always the most advantageous to use? Single, head of household, or qualifying widow(er) with dependent child.

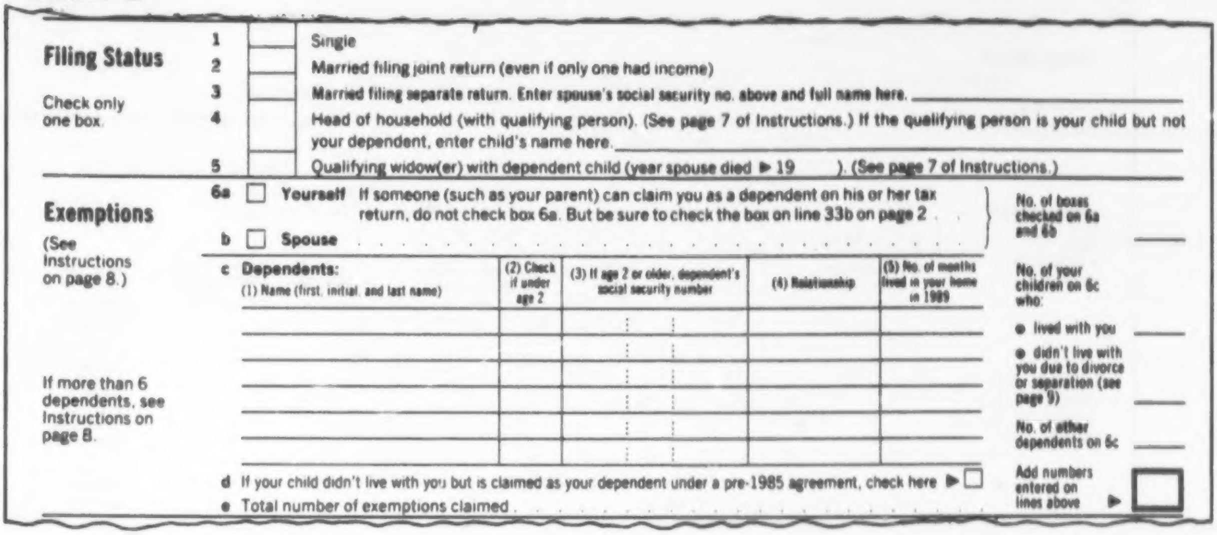
Answer ____________

Exercise 2

Complete the *Filing Status* and *Exemptions* sections of Form 1040 for each of the following taxpayers.

a. Mrs. Williams is 67 years of age. Her husband died in 1987. Her daughter Linda is single and lives with Mrs. Williams. Linda earned $25,000 and paid all the household expenses. Mrs. Williams must file a tax return because she received a taxable pension in 1989. Complete Exhibit 2 for Mrs. Williams.

Exhibit 2



Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____________
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**
No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

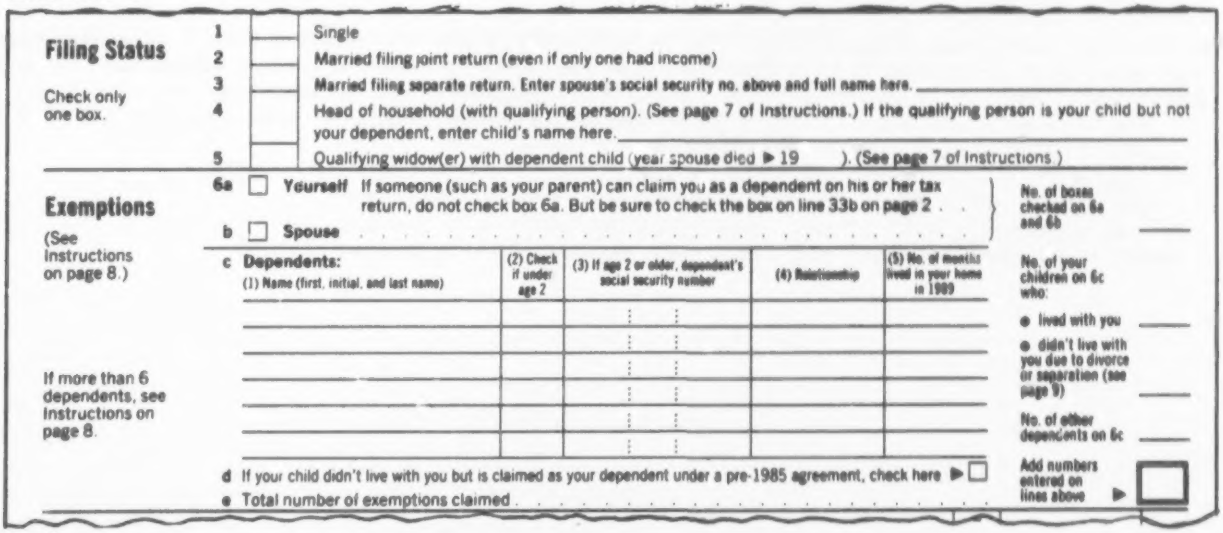
No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed
Add numbers entered on lines above ▶ ☐

b. Tom Roberts' wife died in 1988. He is 39 years old and has two sons, Jim T. (SSN 123-00-4567), and Tim A. (SSN 321-00-7654), ages 9 and 11. He has not remarried, supports the children, and keeps up a home which is the principal home of the children for the entire year. Complete Exhibit 3.

Exhibit 3



Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____________
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**
No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

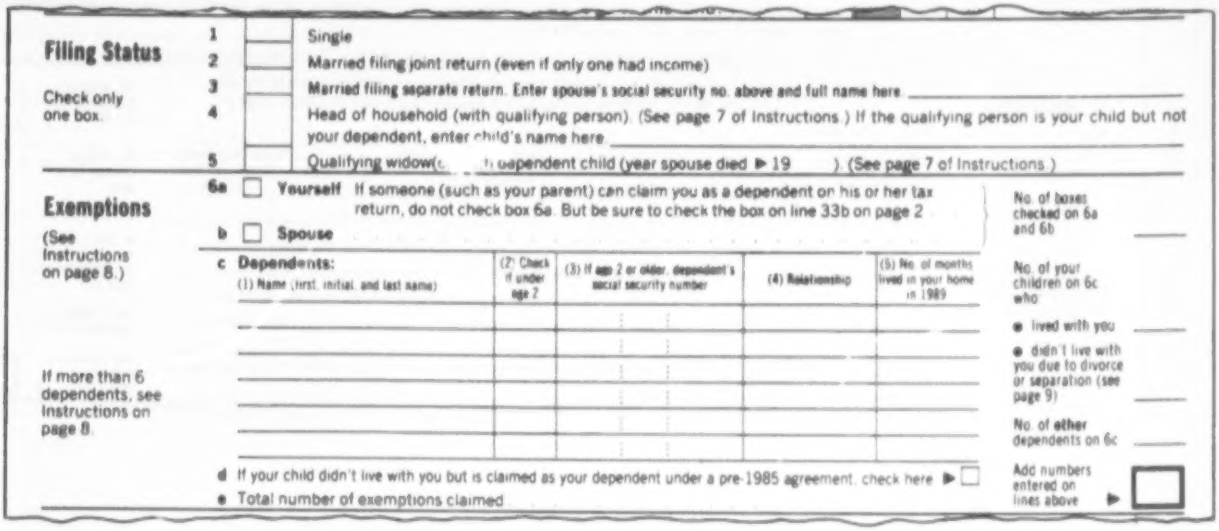
No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed
Add numbers entered on lines above ▶ ☐

c. Jane Kerr is 48 years old. She supports her son, John Z. (SSN 345-00-2345), who is 10 years old, has no income, and lives with her. Her husband died in 1986, and she has not remarried. Complete Exhibit 4.

Exhibit 4



Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2

b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who
- lived with you ______
- didn't live with you due to divorce or separation (see page 9) ______

No. of other dependents on 6c ______

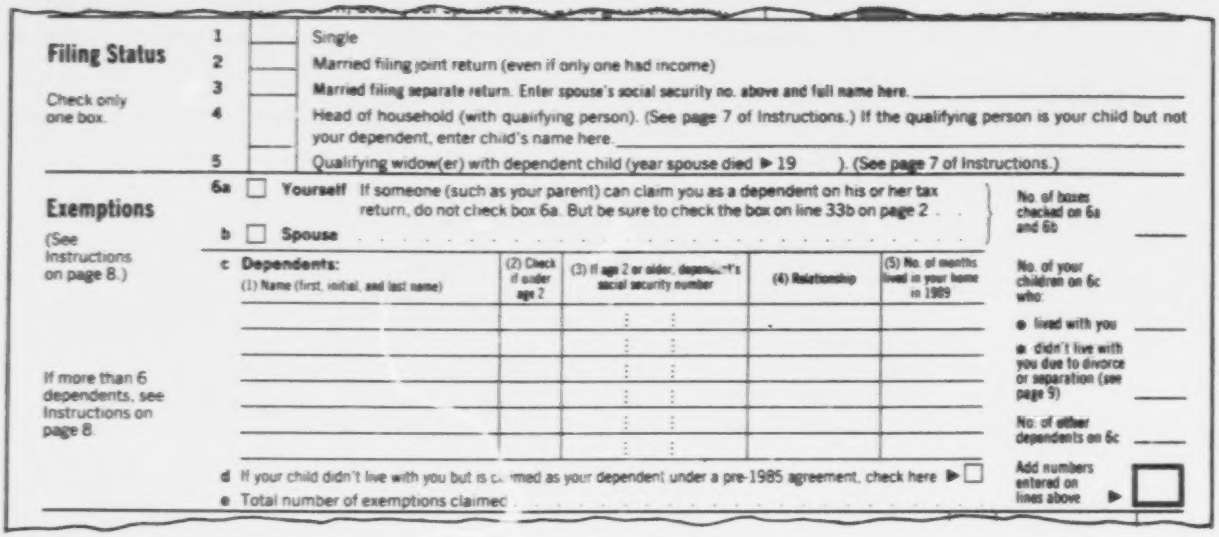
d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

d. Sally Washington is 29 years old. Her children, Danny D. (SSN 678-00-6780), and Mike R. (SSN 654-00-6541), are ages 7 and 10. Sally's husband died in 1987, and she has not remarried. Sally totally supports the children and keeps up a home which is the principal home of the children for the entire year. The children have no income. Complete Exhibit 5.

Exhibit 5



Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ **Married filing separate return. Enter spouse's social security no. above and full name here.** ____________
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Summary

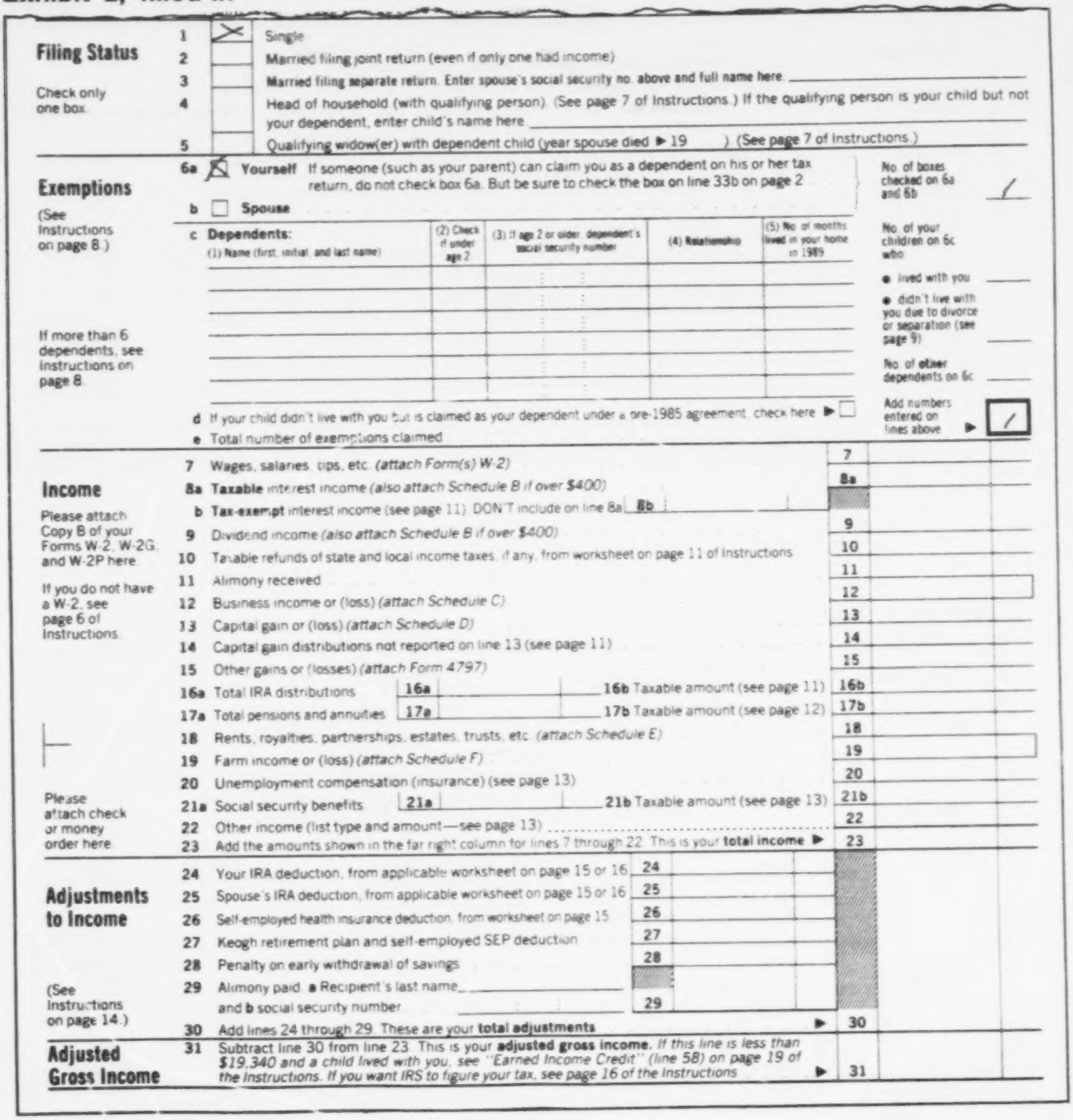
Form 1040 includes the five filing statuses you learned about on Form 1040A. In the *Exemptions* section, Form 1040 contains the same items as Form 1040A.

Answers to Exercises

1. Qualifying widow(er) with dependent child.

2. a. See filled-in Exhibit 2.
   b. See filled-in Exhibit 3.
   c. See filled-in Exhibit 4.
   d. See filled-in Exhibit 5.

Exhibit 2, filled-in



Filing Status

Check only one box.

1 ☒ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ **Married filing separate return. Enter spouse's social security no. above and full name here.** ____
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19 ____). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2

b ☐ **Spouse**

No. of boxes checked on 6a and 6b 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ 1

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7 Wages, salaries, tips, etc. *(attach Form(s) W-2)* | 7
8a **Taxable** interest income *(also attach Schedule B if over $400)* | 8a
b **Tax-exempt** interest income (see page 11). DON'T include on line 8a | 8b
9 Dividend income *(also attach Schedule B if over $400)* | 9
10 Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions | 10
11 Alimony received | 11
12 Business income or (loss) *(attach Schedule C)* | 12
13 Capital gain or (loss) *(attach Schedule D)* | 13
14 Capital gain distributions not reported on line 13 (see page 11) | 14
15 Other gains or (losses) *(attach Form 4797)* | 15
16a Total IRA distributions | 16a | 16b Taxable amount (see page 11) | 16b
17a Total pensions and annuities | 17a | 17b Taxable amount (see page 12) | 17b
18 Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)* | 18
19 Farm income or (loss) *(attach Schedule F)* | 19
20 Unemployment compensation (insurance) (see page 13) | 20
21a Social security benefits | 21a | 21b Taxable amount (see page 13) | 21b
22 Other income (list type and amount—see page 13) | 22
23 Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶ | 23

Adjustments to Income

(See Instructions on page 14.)

24 Your IRA deduction, from applicable worksheet on page 15 or 16 | 24
25 Spouse's IRA deduction, from applicable worksheet on page 15 or 16 | 25
26 Self-employed health insurance deduction, from worksheet on page 15 | 26
27 Keogh retirement plan and self-employed SEP deduction | 27
28 Penalty on early withdrawal of savings | 28
29 Alimony paid. **a** Recipient's last name ____ and **b** social security number ____ | 29
30 Add lines 24 through 29. These are your **total adjustments** ▶ | 30

Adjusted Gross Income

31 Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions.* ▶ | 31

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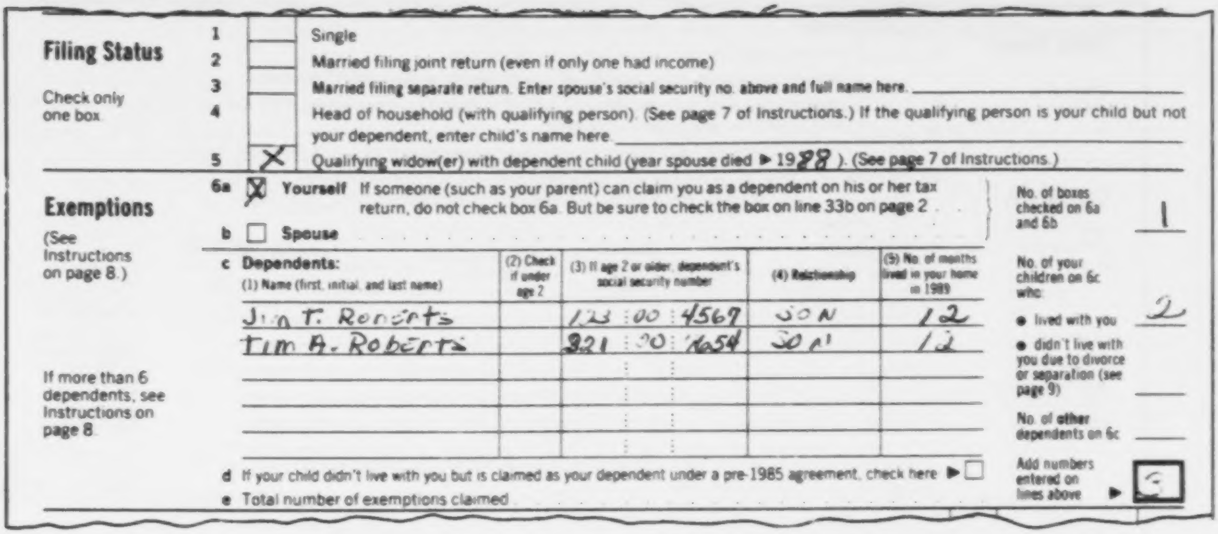
Exhibit 3, filled-in



Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____
5 ☒ Qualifying widow(er) with dependent child (year spouse died ▶ 1988). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**

No. of boxes checked on 6a and 6b 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989
Jim T. Roberts		123 : 00 : 4567	SON	12
Tim A. Roberts		321 : 00 : 7654	SON	12
		: :		
		: :		
		: :		
		: :		

If more than 6 dependents, see Instructions on page 8.

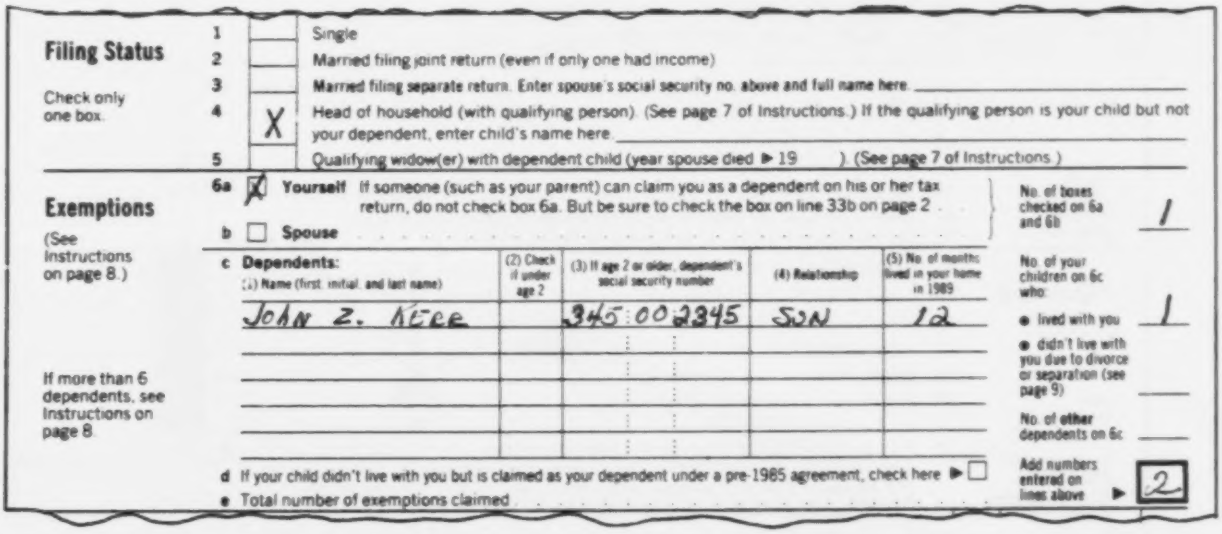
No. of your children on 6c who:
- lived with you 2
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ 3

Exhibit 4, filled-in



Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____
4 ☒ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**

No. of boxes checked on 6a and 6b 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989
JOHN Z. KERR		345 : 00 : 2345	SON	12
		: :		
		: :		
		: :		
		: :		
		: :		

If more than 6 dependents, see Instructions on page 8.

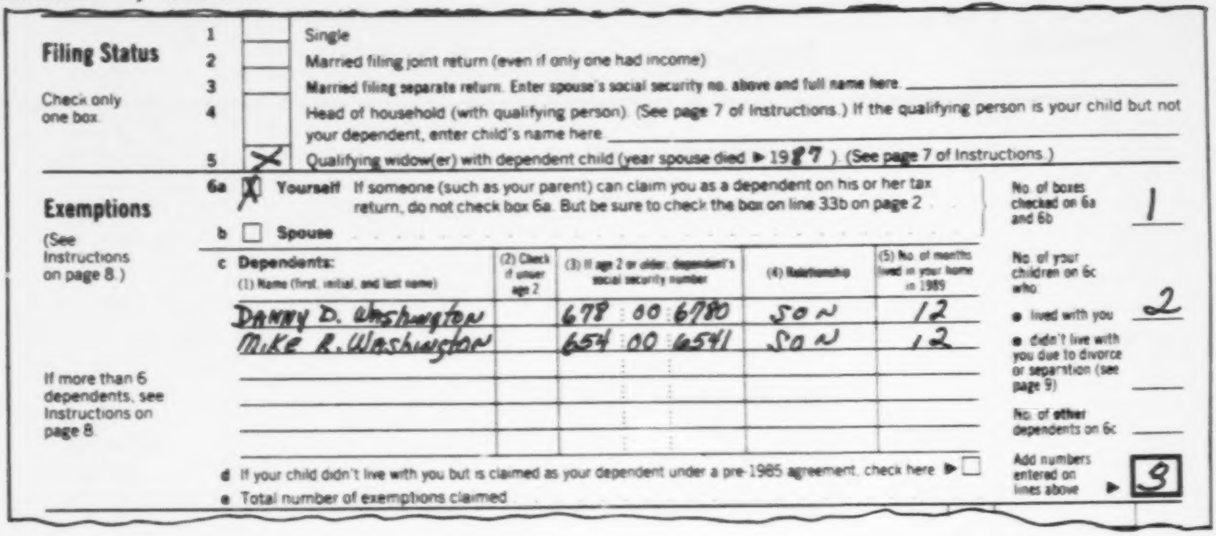
No. of your children on 6c who:
- lived with you 1
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ 2

Exhibit 5, filled-in



Filing Status

Check only one box.

1 ☐ Single

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____________

4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____________

5 ☒ Qualifying widow(er) with dependent child (year spouse died ▶ 1987). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.

b ☐ **Spouse**

No. of boxes checked on 6a and 6b 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989
Danny D. Washington		678 00 6780	SON	12
Mike R. Washington		654 00 6541	SON	12

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:

- lived with you 2
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ 3

Lesson 3

Income

Objectives

At the end of this lesson you will be able to:

1. Report common types of income.
2. Determine the total amount subject to tax.

Contents

Introduction

Wages, Salaries, Tips, Etc.

Interest Income

Dividend Income

Miscellaneous Income

Total Income

Summary

Answers to Exercises

Introduction

If the taxpayer has income that cannot be reported on Form 1040A, he or she must use Form 1040. The most common income items (such as wages, salaries, tips, interest, ordinary dividends, and unemployment compensation) are reported the same way on Form 1040 as they are on Form 1040A. For tax situations that are beyond the scope of volunteer assistance, you should refer the taxpayer to specific IRS publications or to professional tax preparers.

Rounding Off Dollars

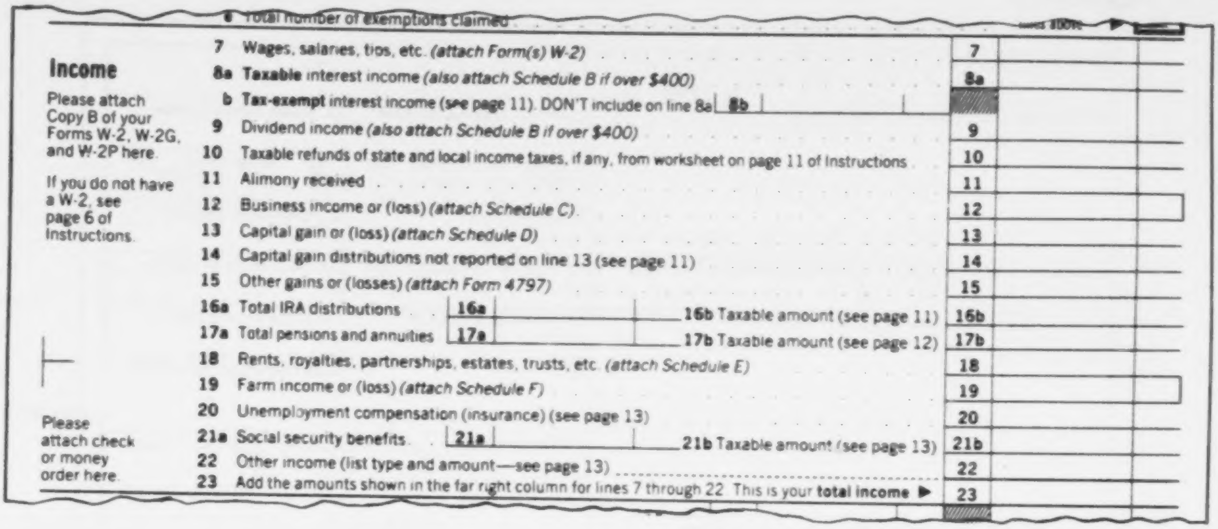
You may round off cents to the nearest whole dollar on a tax return and its schedules. To do so, drop amounts under 50 cents to the next dollar and increase amounts from 50 to 99 cents to the next dollar. For example, $2.29 becomes $2 and $4.50 becomes $5.00.

If you do round off, do so for all entries on the return and its schedules. However, if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding the amounts and only round off the total.

Example

A taxpayer received two Forms W-2, one showing wages of $6,000.67 and one showing wages of $8,500.81. On Form 1040, line 7, you would enter $14,501 ($6,000.67 + $8,500.81 = $14,501.48) instead of $14,502 ($6,001 + $8,501).

Exhibit 1



Total number of exemptions claimed

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	**8a**
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a **8b**	▨
9	Dividend income *(also attach Schedule B if over $400)*	9
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10
11	Alimony received	11
12	Business income or (loss) *(attach Schedule C)*	12
13	Capital gain or (loss) *(attach Schedule D)*	13
14	Capital gain distributions not reported on line 13 (see page 11)	14
15	Other gains or (losses) *(attach Form 4797)*	15
16a	Total IRA distributions **16a** **16b** Taxable amount (see page 11)	**16b**
17a	Total pensions and annuities **17a** **17b** Taxable amount (see page 12)	**17b**
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18
19	Farm income or (loss) *(attach Schedule F)*	19
20	Unemployment compensation (insurance) (see page 13)	20
21a	Social security benefits **21a** **21b** Taxable amount (see page 13)	**21b**
22	Other income (list type and amount—see page 13)	22
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23

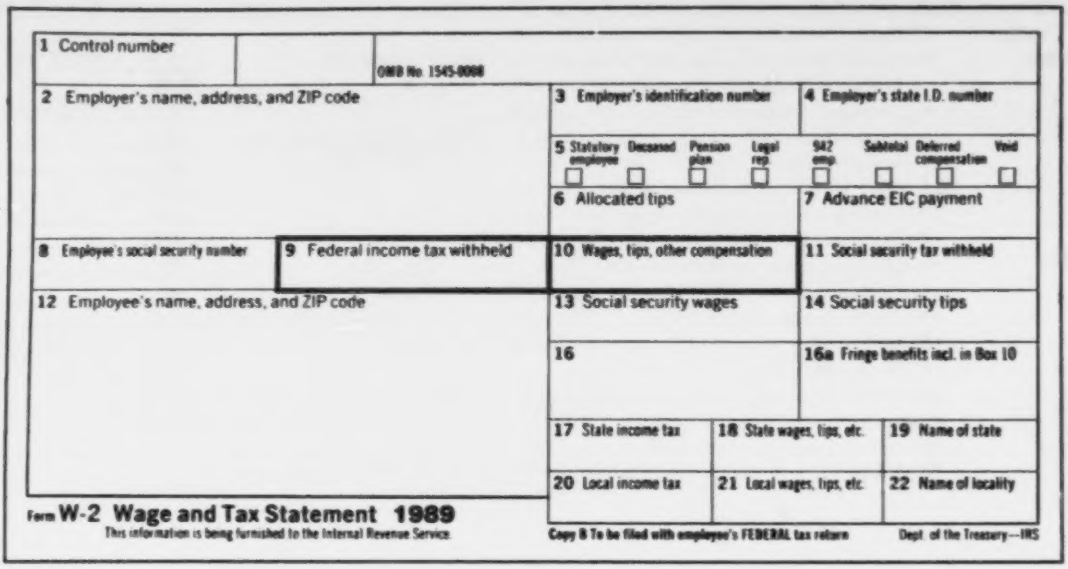
Wages, Salaries, Tips, Etc.

Wages, salaries, and tips are compensation that an employed person receives as payment for personal services. These payments are a primary example of ***earned income***, which is a term you need to understand because other definitions and limits depend on it.

Form W-2

An employed person should receive a Form W-2, *Wage and Tax Statement,* from each employer he or she worked for during the year, reporting earned income.

Exhibit 2



1 Control number

OMB No. 1545-0008

2 Employer's name, address, and ZIP code

3 Employer's identification number

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number

9 Federal income tax withheld

10 Wages, tips, other compensation

11 Social security tax withheld

12 Employee's name, address, and ZIP code

13 Social security wages

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement 1989**

This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Box 10, *Wages, tips, other compensation,* on Form W-2, shows the payment received for services that is to be included on Form 1040, line 7. The payment may have been received as cash wages, goods and services, bonuses and awards, or employee benefits, such as certain insurance coverage payments made by the employer. In preparing the *Income* section, you can disregard box 11, *Social security tax withheld,* and box 13, *Social security wages.*

Final Wage Payments

An employee who retires or resigns may receive a single large payment as severance pay or accumulated vacation pay. This payment is included on Form W-2 as compensation for service, and must be reported as wages.

More Than One Form W-2

You will often meet someone who had several different employers during the same year, each of whom has issued a Form W-2. To increase accuracy in handling several Forms W-2, select Copy B of each set and return all other copies to the taxpayer. Add the amounts from box 10 of each Form W-2 and enter the total on Form 1040, line 7. Follow the same procedure when husband and wife have more than one Form W-2 on a joint return. Doing this will also simplify totalling the withheld federal income tax (box 9) later.

Taxpayers may receive a Form W-2c, *Statement of Corrected Income and Tax Amounts,* to correct previous Forms W-2 issued. Form W-2c is treated the same way as Form W-2. Do not add the original Form W-2 to the Form W-2c.

For more information about other compensation, see Publication 17 and Publication 525, *Taxable and Nontaxable Income.*

Form W-2P

A retired person receives a statement similar in appearance and purpose to a Form W-2, known as a Form W-2P, from the payer of his or her pension or annuity. This retirement income is **not** wages. Do not include it on line 7 of Form 1040. You will learn how to report pensions and annuities in Module IV.

Self-Employment Income

Self-employment income is not wages, although it is earned income. Many self-employed people receive Form 1099-MISC, which resembles Form W-2, and is issued by a person or business who "hired" the taxpayer's services or "contracted" for his or her labor. Often a self-employed taxpayer mistakenly thinks the form is a Form W-2. Refer this person to a professional tax preparer.

Exercise 1

Mr. Morris tells you he received $7,500 of wages from working at the supermarket, $120 in interest income, and $6,000 of military retirement pay. How much should he report on Form 1040, line 7?

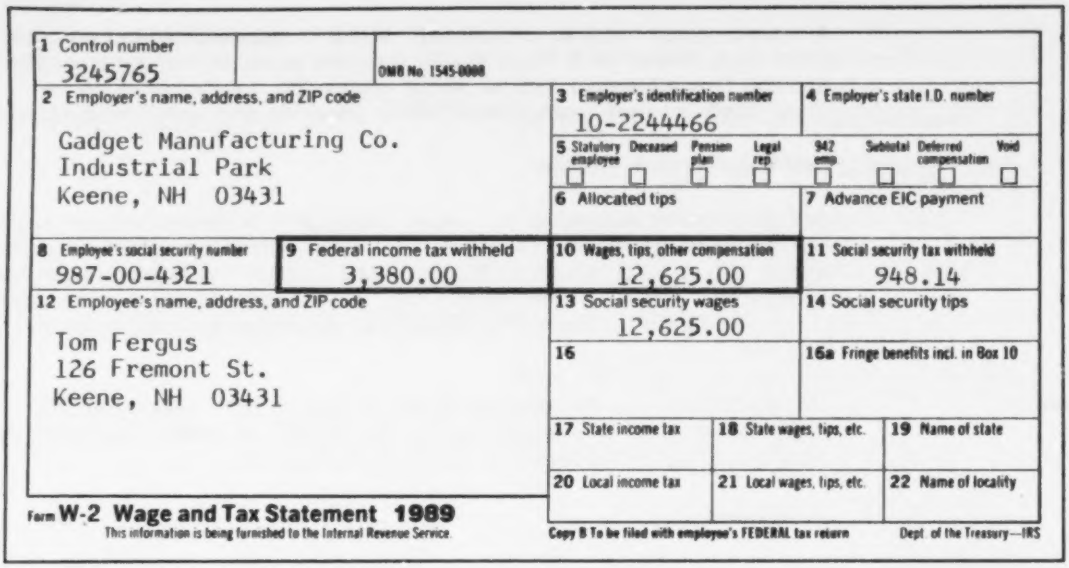
Answer

Exercise 2

Tom and Sally Fergus want to file a joint return. They had three Forms W-2 (see Exhibits 3, 4, and 5). How much will you enter on Form 1040, line 7?

Answer

Exhibit 3



1 Control number
3245765

OMB No. 1545-0008

2 Employer's name, address, and ZIP code
Gadget Manufacturing Co.
Industrial Park
Keene, NH 03431

3 Employer's identification number
10-2244466

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
987-00-4321

9 Federal income tax withheld
3,380.00

10 Wages, tips, other compensation
12,625.00

11 Social security tax withheld
948.14

12 Employee's name, address, and ZIP code
Tom Fergus
126 Fremont St.
Keene, NH 03431

13 Social security wages
12,625.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

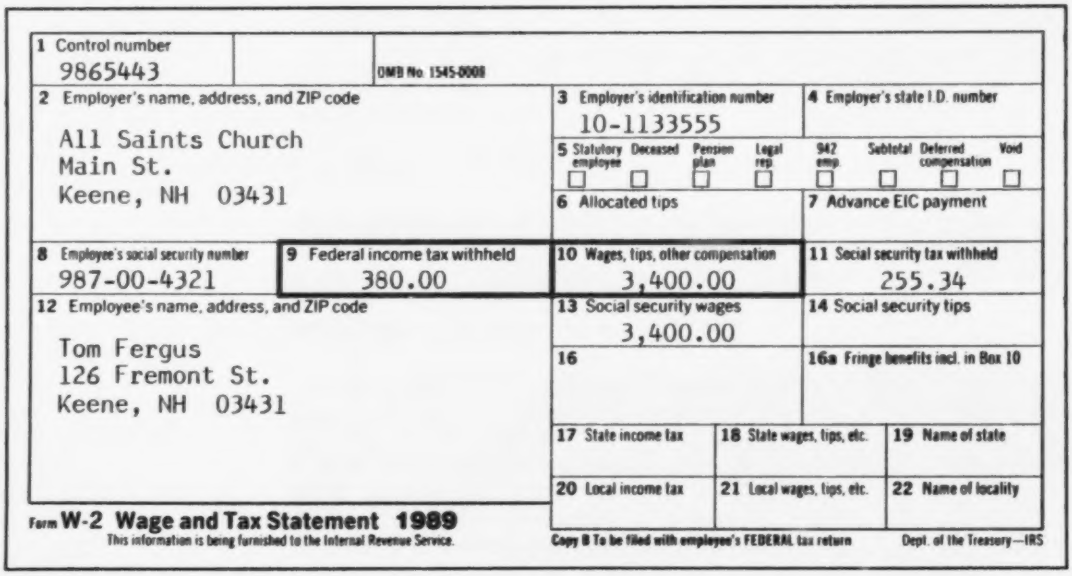
22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 4



1 Control number
9865443

OMB No. 1545-0008

2 Employer's name, address, and ZIP code
All Saints Church
Main St.
Keene, NH 03431

3 Employer's identification number
10-1133555

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
987-00-4321

9 Federal income tax withheld
380.00

10 Wages, tips, other compensation
3,400.00

11 Social security tax withheld
255.34

12 Employee's name, address, and ZIP code
Tom Fergus
126 Fremont St.
Keene, NH 03431

13 Social security wages
3,400.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

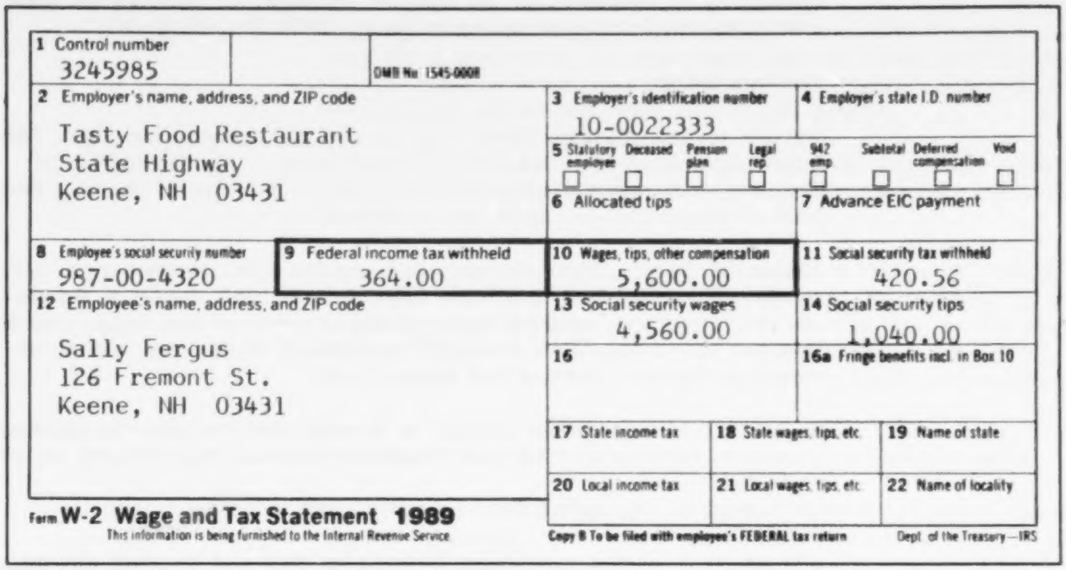
22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 5



1 Control number
3245985

OMB No. 1545-0008

2 Employer's name, address, and ZIP code
Tasty Food Restaurant
State Highway
Keene, NH 03431

3 Employer's identification number
10-0022333

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
987-00-4320

9 Federal income tax withheld
364.00

10 Wages, tips, other compensation
5,600.00

11 Social security tax withheld
420.56

12 Employee's name, address, and ZIP code
Sally Fergus
126 Fremont St.
Keene, NH 03431

13 Social security wages
4,560.00

14 Social security tips
1,040.00

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Interest Income

When money is deposited in accounts in banks and other financial institutions, is used to buy certificates or bonds, or is lent to another person or business, it earns interest. Because the ***money,*** rather than a person, is working, interest is ***unearned income.***

Interest received or credited to an individual's account is includible in taxable income unless specifically tax-exempt by law (see *Tax-Exempt Interest,* later).

Most interest received must be included in income. This includes interest received from bank savings and checking accounts, from loans made to anyone, and from other sources.

Note: Any tax-exempt interest received or accrued during the year must be shown on the tax return. Do not include this amount in total income.

Savings Accounts

A cash-basis taxpayer must report interest that is earned from an account in a bank, credit union, savings and loan, or similar financial institution in the year that it is received. Interest is considered received by the taxpayer when it is credited to the account and subject to withdrawal, even if it is not entered in the taxpayer's passbook.

Note: Many distributions are commonly called dividends, but are actually interest. These include "dividends" on deposits or on share accounts in federal savings and loan associations, domestic savings and loan or building and loan associations, credit unions, cooperative banks, and mutual savings banks.

Interest on frozen deposits. Under certain circumstances, taxpayers may exclude from income amounts of interest credited during the year on deposits that could not be withdrawn by the end of the year because of the bankruptcy or insolvency of the financial institution, or because the state where the institution is located has placed limits on withdrawals.

Savings Bonds

Interest on U.S. Savings Bonds may be earned in one of two ways. Some bonds are issued at a discount, and the interest is represented by an increase in the value over a stated period of time. Interest on other bonds is paid at stated intervals by check or coupon.

Series EE Bonds. These bonds, which are the most common type, are purchased for less than their face value (before 1980, ***Series E Bonds*** were issued). They "pay" interest by increasing in value as they reach maturity. A taxpayer who owns either Series EE or Series E Bonds may report the interest income in either of two ways:

1. A taxpayer may defer reporting the interest until the year the taxpayer cashes the bond, or the year in which it reaches final maturity, whichever is earlier, or
2. A taxpayer may report the increase in cash value each year.

If a taxpayer purchased a Series E Bond in 1949 and deferred reporting interest, the interest must be reported on the 1989 tax return since these bonds have matured.

Series HH Bonds. These bonds are issued at face value. The interest on these bonds is paid by check twice a year (before 1980, ***Series H Bonds*** were issued). A taxpayer must report the interest earned on these bonds in the year he or she receives it.

Other U.S. obligations, such as U.S. Treasury notes and bonds, which are issued by an agency or instrumentality of the United States, are fully taxable.

Certificates of Deposit, Savings or Money Market Certificates

If interest is paid at fixed intervals of one year or less during the term of the account, include the interest in income when it is actually received or the taxpayer is entitled to receive it without paying a substantial penalty. The same is true for accounts that mature in one year or less and give a single payment of interest at maturity. If interest is deferred for more than one year, see *Original Issue Discount,* later.

Other Interest Items

Interest on life insurance policies. Benefits from a life insurance policy that a taxpayer receives because of the death of the insured may be paid either in a lump sum or in installments. Generally, if the payments are received in installments, the interest must be included in the taxpayer's income. However, if the decedent died before October 23, 1986, and was the taxpayer's spouse, the first $1,000 of such interest received each year is not taxed.

Interest on insurance dividends. This interest is included in taxable income, when it is credited to the taxpayer's account, if the dividends are withdrawable on demand.

Interest on GI insurance dividends that have been left on deposit with the Veterans Administration is taxable.

Form 1099–INT

Banks and other financial institutions use Form 1099–INT to report interest received or credited to the depositor's account. Some credit unions and savings and loan institutions call interest "dividends." True dividends are different and will be discussed later in this lesson.

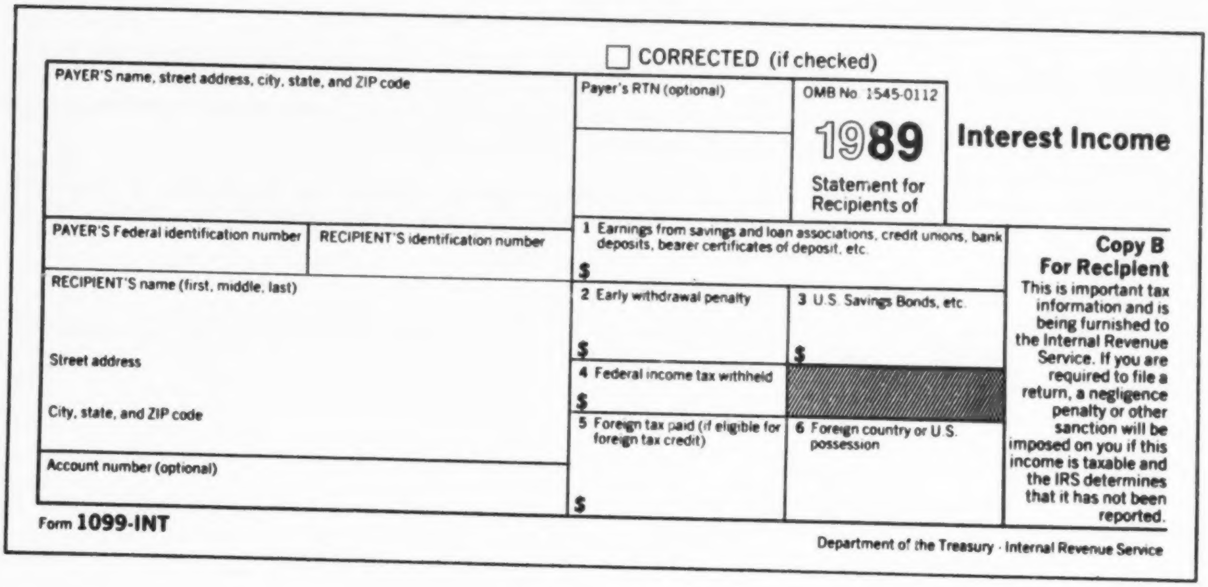
A few taxpayers will have Forms 1099–INT that show federal income tax withheld. Include the withheld amount with other withheld tax when you fill in line 56 of Form 1040.

Most taxpayers who have cashed U.S. Savings Bonds will receive a Form 1099–INT. However, Form 1099–INT may show more interest than the taxpayer needs to report as income if he or she was not the original owner of the bond, or if the taxpayer had chosen to report the interest income as it was earned. Be sure to check with the taxpayer concerning this interest.

Box 1 of Form 1099–INT shows taxable interest that must be reported. Box 3 also shows taxable interest, generally from U.S. Savings Bonds.

If a taxpayer withdrew funds from a time savings account or other form of deposit (certificate, etc.) before the maturity of that account, he or she may be charged an interest penalty. This forfeiture of interest is shown in box 2 of Form 1099–INT. The taxpayer must report on line 8a, Form 1040, the gross amount of the interest paid or credited to the account during the year without subtracting the interest penalty (forfeiture). This amount (the forfeiture in box 2) is deducted as an adjustment to income on line 28, Form 1040.

Exhibit 6



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

Payer's RTN (optional)

OMB No. 1545-0112

1989

Statement for Recipients of

Interest Income

PAYER'S Federal identification number

RECIPIENT'S identification number

1 Earnings from savings and loan associations, credit unions, bank deposits, bearer certificates of deposit, etc.
$

RECIPIENT'S name (first, middle, last)

2 Early withdrawal penalty
$

3 U.S. Savings Bonds, etc.
$

Street address

4 Federal income tax withheld
$

City, state, and ZIP code

5 Foreign tax paid (if eligible for foreign tax credit)
$

6 Foreign country or U.S. possession

Account number (optional)

Copy B
For Recipient
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT**

Department of the Treasury · Internal Revenue Service

If there is an amount in box 5 concerning foreign tax paid, you should refer the taxpayer to a professional tax preparer.

Original Issue Discount (OID)

All long-term obligations that pay no interest prior to maturity are presumed to be issued at a discount. Original issue discount (OID) is the difference between the principal amount (stated redemption price at maturity) of a long-term debt instrument, such as a bond, note, or other evidence of indebtedness, and its issue price.

Form 1099–OID is used by a corporation, a bank, or other financial institution to report the amount of original issue discount income that a taxpayer should report as income for the year. Box 1 of the Form 1099–OID shows the correct amount of interest for the year if the taxpayer bought the obligation at its original issue and held the issue all year. Box 2 shows regular interest paid on the obligation in addition to the OID income.

If the taxpayer has OID income from an obligation, and bought the obligation after its original issue or did not hold the obligation all year, refer the taxpayer to Publication 550, *Investment Income and Expenses*, or Publication 1212, *List of Original Issue Discount Instruments*, or to a professional tax preparer.

How to Report Interest

Enter the total taxable interest income on Form 1040, line 8a.

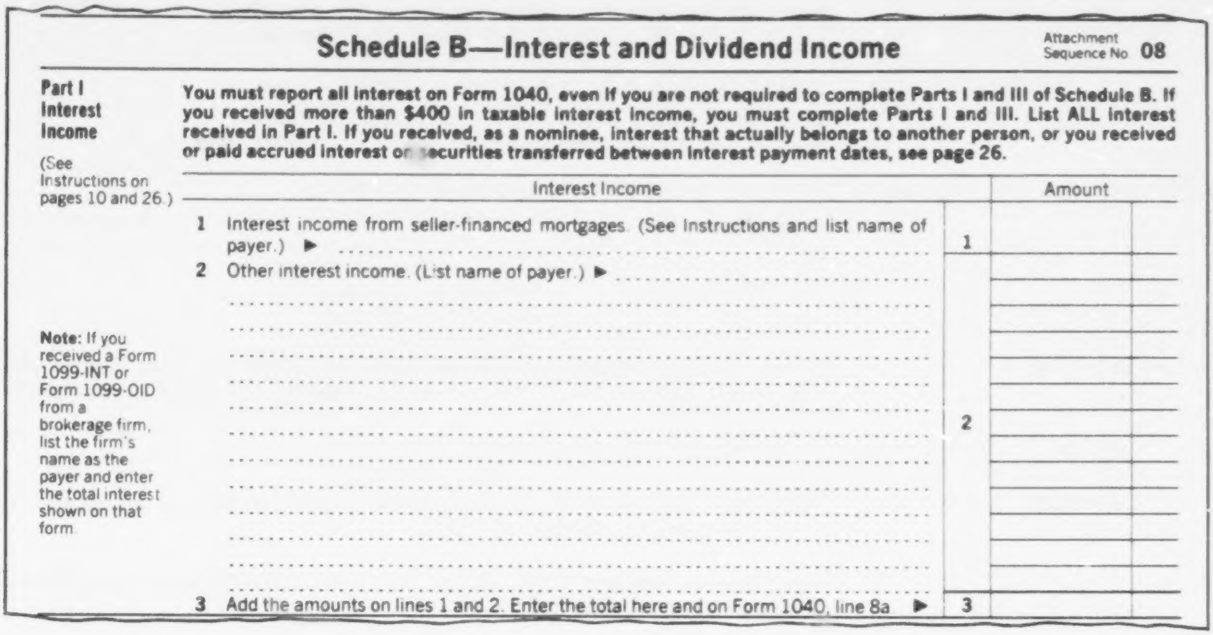
Schedule B, Part I. If taxable interest income is over $400, list the payers' names and the various amounts on Schedule B, Part I.

On Schedule B, line 1, enter interest the taxpayer received from privately financing a property sale.

On Schedule B, line 2, list all payers of other taxable interest and the amounts received. If several accounts are at the same bank, list the interest from each account separately. You may use ditto marks rather than repeat the bank's name.

For more information about interest income, see Publication 17. For more information about reporting interest on frozen deposits, see Publication 550, *Investment Income and Expenses.*

Exhibit 7



Schedule B—Interest and Dividend Income

Attachment Sequence No **08**

Part I Interest Income

(See Instructions on pages 10 and 26.)

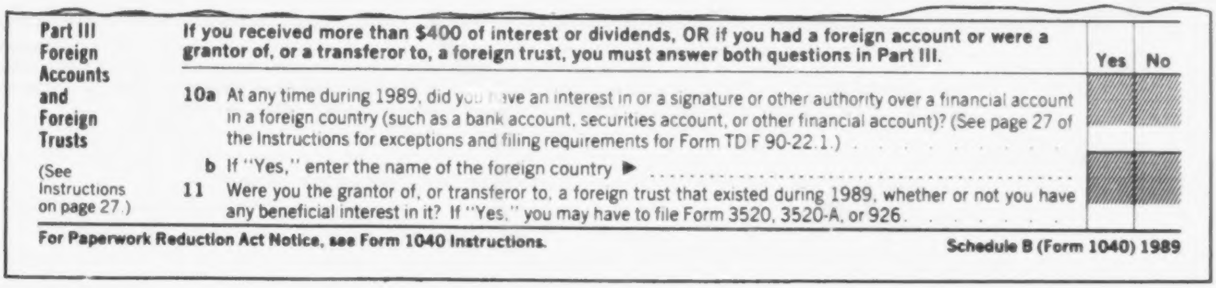
You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

	Interest Income		Amount
1	Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2	Other interest income. (List name of payer.) ▶	2	
3	Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

Schedule B, Part III. Anyone who has to file Schedule B because he or she received more than $400 of interest or dividends, or had a foreign account, must also answer both questions in Part III, which asks about foreign bank accounts and foreign trusts.

Exhibit 8



Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

	If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
10a	At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		
b	If "Yes," enter the name of the foreign country ▶	▨	▨
11	Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exercise 3

Alan and Carol Dane have brought three Forms 1099–INT to the site. Two of them are for less than $400 and one is for over $400. How much will you list on Schedule B, Part I? On Form 1040, line 8a?

Epping National Bank	$ 62
Employees Credit Union	$178
Epping Federal Savings and Loan	$760

Answer

Exercise 4

Sharon Sharp's interest income this year was $392. She files Form 1040. How much interest will you report on her income tax return and where?

Answer

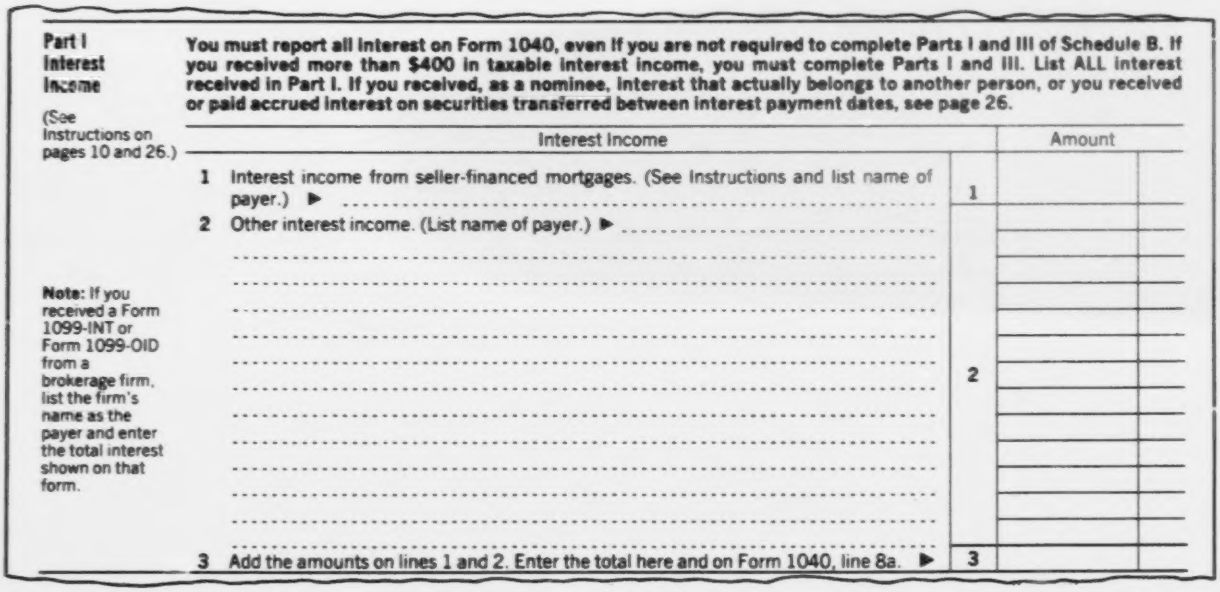
Exercise 5

Fred and Gwen Randall are married and choose to file a joint return. They have the following interest income:

First City Savings and Loan (joint)	$320
Second National Bank certificate of deposit (Fred)	$100
U.S. Series H Savings Bonds (joint)	$ 45
Employees Credit Union (Gwen)	$ 30

Complete Part I of the Randalls' Schedule B, Form 1040 (see Exhibit 9).

Exhibit 9



Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income. (List name of payer.) ▶	2	
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

Tax-Exempt Interest

Certain types of interest are exempt from federal income taxes. Interest on the obligations of a state or one of its political subdivisions, the District of Columbia, a possession of the United States, or one of its political subdivisions is not taxable. However, tax-exempt interest must be shown on line 8b, Form 1040.

Examples of the types of agencies or political subdivisions that may issue tax-exempt obligations are:

Port authorities,
Toll-road commissions,
Utility service authorities,
Community redevelopment agencies, and
Qualified volunteer fire departments.

Mutual funds often buy tax-exempt issues and will include these exempt-interest dividends on the statements to their shareholders. These amounts are not included on line 8a, but must be reported as tax-exempt interest on line 8b.

Dividend Income

Dividends are distributions paid by corporations. Taxpayers also may receive dividends through a partnership, an estate, a trust, or an association that is taxed as a corporation.

Taxpayers may receive any of the following kinds of distributions: ordinary dividends, capital gain distributions, or nontaxable distributions. Most distributions are paid in cash. However, taxpayers may receive additional stock, stock rights, other property, or services.

Ordinary dividends. Ordinary dividends are distributions from the earnings and profits of a corporation to its shareholders. While there are many other forms of corporate distributions, ordinary dividends are the usual type.

Dividends that a taxpayer receives from common or preferred stock are ordinary dividends unless the paying corporation states otherwise. Ordinary dividends are taxable.

Capital gain distributions. Capital gain distributions are paid to a taxpayer or credited to his or her account, generally from mutual funds, regulated investment companies, or real estate investment trusts. Capital gain distributions are treated as long-term capital gains, regardless of how long the taxpayer held the stock. Capital gains are explained in Module IV.

Nontaxable distributions. There are certain distributions that a taxpayer may receive that are not taxable.

A return of capital is a return of part of the taxpayer's investment in the stock of the company and is not paid out of the earnings and profits of the corporation. A return of capital reduces the basis of the stock and is not taxed until the taxpayer's basis in the stock is fully recovered. Any return of capital in excess of basis is capital gain. Capital gain is explained in Module IV.

Stock dividends are generally not taxable. They increase the taxpayer's number of shares in the company. However, there are times when stock dividends will be taxable. Questions regarding these should be referred to a professional preparer.

Other distributions. Exempt-interest dividends received from a mutual fund are not taxable. Dividends on insurance policies are not taxable until they are more than the total of net premiums paid by the taxpayer. Dividends on veterans' insurance are not taxable. Certain patronage dividends also are not taxable. Credit union dividends are reported as interest.

Dividend reinvestment. Stockholders often leave dividends on deposit for reinvestment and never receive any checks. This method of investing in stock is an example of "constructive receipt" of income. That is, the stockholder has an option to receive the income, so it is taxable income at that time. If the person receiving dividend income does not know what kind of dividend was received or reinvested, and the paying company's statement is unclear, refer the person to a professional preparer or to Publication 550, *Investment Income and Expenses*.

How To Report Dividend Income

Ordinary dividends may be reported on either Form 1040A or Form 1040. However, Form 1040 must be used if a taxpayer receives capital gain distributions or receives return of capital distributions.

Dividends—$400 or Less. Report all ordinary dividends on line 9, Form 1040.

Dividends—Over $400. If the taxpayer's total dividends are over $400, the source and the amount of all dividends received must be listed on line 4, Part II of Schedule B (Form 1040). Included on this line are ordinary dividends, capital gain distributions, and nontaxable distributions. The total of all dividends received is then added on line 5, Schedule B.

Note: If a taxpayer has a statement from a brokerage firm, list the brokerage firm as the source and the total of all dividends received from all stocks held by that firm. The taxpayer may also have a statement from the brokerage firm listing individual sources of dividends received. ***Do not*** list these individual sources of dividends.

Return of capital distributions. These are not reported until the taxpayer's cost or other basis in the stock has been reduced to zero. If the basis has been reduced to zero, this amount must be reported on Schedule D.

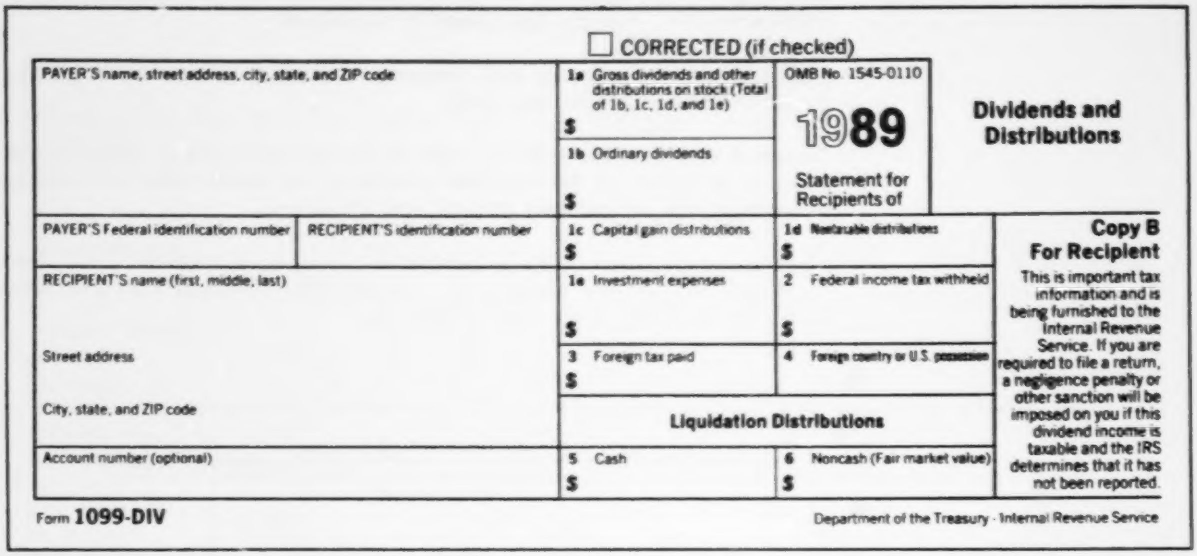
Capital gain distributions listed on line 4 are totaled on line 6. This amount must also be entered on line 13 of Schedule D (Form 1040). However, if Schedule D is not otherwise required, enter the amount from line 6 directly on Form 1040, line 14.

Nontaxable distributions from line 4 are totaled on line 7 of Schedule B (Form 1040).

Form 1099–DIV

* Dividend income is reported to stockholders on Form 1099–DIV. Form 1099–DIV is shown in Exhibit 10. You should be familiar with the terms at the top of each box.

Exhibit 10



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e)
$

1b Ordinary dividends
$

OMB No. 1545-0110

1989

Statement for Recipients of

Dividends and Distributions

PAYER'S Federal identification number

RECIPIENT'S identification number

1c Capital gain distributions
$

1d Nontaxable distributions
$

RECIPIENT'S name (first, middle, last)

1e Investment expenses
$

2 Federal income tax withheld
$

Street address

3 Foreign tax paid
$

4 Foreign country or U.S. possession

City, state, and ZIP code

Liquidation Distributions

Account number (optional)

5 Cash
$

6 Noncash (Fair market value)
$

Copy B
For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Box 1a. Gross dividends and other distributions of stock. This box includes any amounts shown in boxes 1b, 1c, 1d, and 1e. If the taxpayer does not file Schedule B (see Dividends-400 or Less, earlier), enter the sum of boxes 1b and 1e on Form 1040, line 9. Also, enter the amount in box 1c on Form 1040, line 14, if Schedule D is not otherwise needed. If Schedule D is needed, enter the amount in box 1c on Schedule D, line 13.

If the taxpayer files Schedule B, Form 1040 (see Dividends-Over $400, earlier), report the amount in box 1a on Schedule B.

Box 1b. Ordinary dividends. Ordinary dividends are fully taxable and are included in box 1a.

Box 1c. Capital gain distributions. Capital gains distributions are included in box 1a.

Box 1d. Nontaxable distributions. Amounts shown in box 1d are usually a return of capital that reduce the taxpayer's basis in the stock. Once the taxpayer has received an amount equal to his or her cost, or other basis, these distributions are taxable to the taxpayer as a capital gain even if the payer lists them as nontaxable. This amount is included in box 1a.

Box 1e. Investment expenses. The amount shown in box 1e is the taxpayer's share of the expenses of a nonpublicly offered mutual fund, which is included as a dividend in box 1a. The expenses shown in box 1e are deductible as a miscellaneous deduction on Schedule A, Form 1040, subject to the 2% AGI limit.

Box 2. Federal income tax withheld. The amount in this box represents backup withholding. Tax is not required to be withheld from all dividend payments. However, some taxpayers may be subject to withholding. If Form 1099–DIV shows withheld tax, include the amount in box 2 on line 56, Form 1040, and check the box on this line.

Box 3. Foreign tax paid (if eligible for foreign tax credit). This item is beyond the scope of the volunteer program. You should refer the taxpayer to Publication 514, *Foreign Tax Credit for Individuals.*

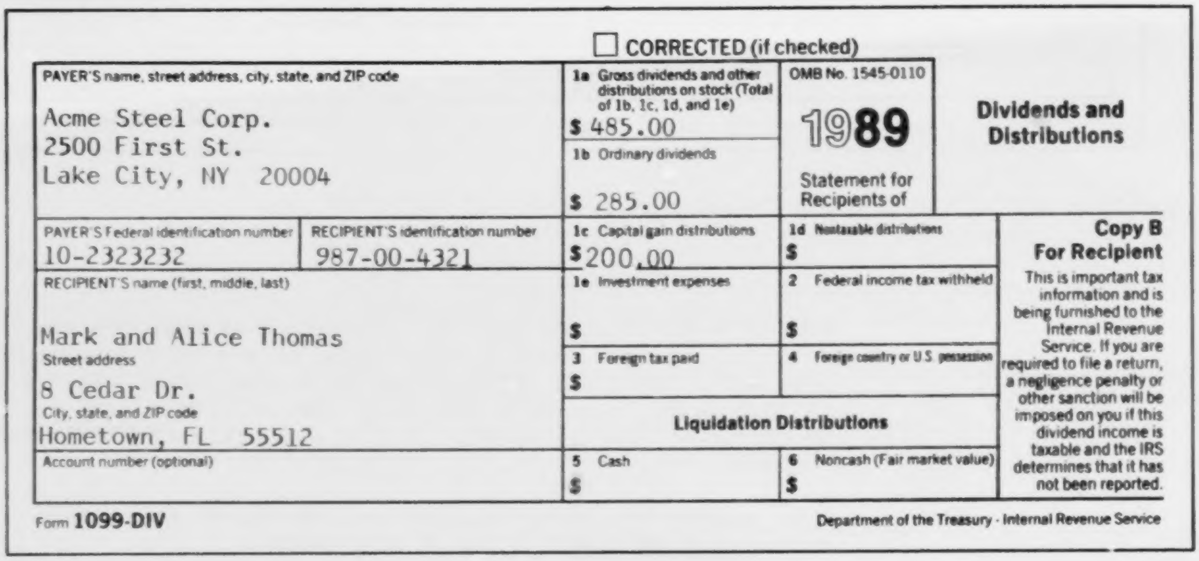
Box 4. Foreign country or U.S. possession. This is the country or possession to which the foreign tax was paid.

Boxes 5 and 6. Cash and non-cash liquidation distributions. These items are beyond the scope of the volunteer program. You should refer the taxpayer to Publication 550, *Investment Income and Expenses.*

Exercise 6

Mark and Alice Thomas file a joint return. They have received three Forms 1099–DIV for the year (Exhibits 11, 12, and 13). Complete Part II of their Schedule B (Form 1040). See Exhibit 14.

Exhibit 11



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Acme Steel Corp. 2500 First St. Lake City, NY 20004	1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 485.00 1b Ordinary dividends $ 285.00	OMB No. 1545-0110 1989 Statement for Recipients of	**Dividends and Distributions**
PAYER'S Federal identification number 10-2323232	RECIPIENT'S identification number 987-00-4321	1c Capital gain distributions $200.00	1d Nontaxable distributions $
RECIPIENT'S name (first, middle, last) Mark and Alice Thomas	1e Investment expenses $	2 Federal income tax withheld $	**Copy B For Recipient**
Street address 8 Cedar Dr. City, state, and ZIP code Hometown, FL 55512	3 Foreign tax paid $	4 Foreign country or U.S. possession	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
	Liquidation Distributions		
Account number (optional)	5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 12

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Jonesville Industries, Inc. 3600 Main St. Jonesville, MD 21140		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 750.00	OMB No. 1545-0110 1989 Statement for Recipients of	**Dividends and Distributions**
		1b Ordinary dividends $ 700.00		
PAYER'S Federal identification number 10-3434343	RECIPIENT'S identification number 999-00-3333	1c Capital gain distributions $	1d Nontaxable distributions $ 50.00	**Copy B For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Alice Thomas		1e Investment expenses $	2 Federal income tax withheld $	
Street address 8 Cedar Dr.		3 Foreign tax paid $	4 Foreign country or U.S. possession	
City, state, and ZIP code Hometown, FL 55512		**Liquidation Distributions**		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 13

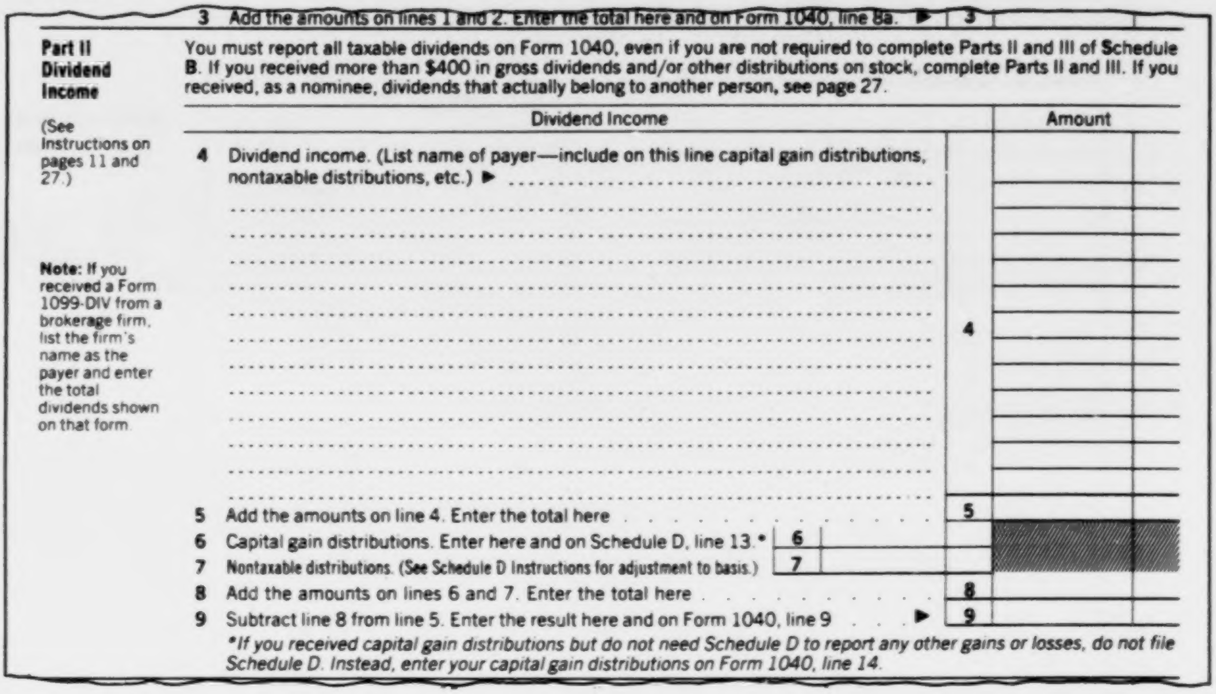
☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Smith Electrical, Inc. 1000 Bird St. Lake City, NY 20008		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 225.00	OMB No. 1545-0110 1989 Statement for Recipients of	**Dividends and Distributions**
		1b Ordinary dividends $ 200.00		
PAYER'S Federal identification number 10-8234679	RECIPIENT'S identification number 999-00-3333	1c Capital gain distributions $ 25.00	1d Nontaxable distributions $	**Copy B For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Alice Thomas		1e Investment expenses $	2 Federal income tax withheld $	
Street address 8 Cedar Dr.		3 Foreign tax paid $	4 Foreign country or U.S. possession	
City, state, and ZIP code Hometown, FL 55512		**Liquidation Distributions**		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 14



3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶ 3

Part II Dividend Income

(See Instructions on pages 11 and 27.)

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

	Dividend Income			Amount
4	Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶		4	
5	Add the amounts on line 4. Enter the total here		5	
6	Capital gain distributions. Enter here and on Schedule D, line 13.*	6		▨
7	Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7		▨
8	Add the amounts on lines 6 and 7. Enter the total here		8	
9	Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶		9	

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

Exercise 7

a. Where does a taxpayer report his or her credit union dividends?

Answer

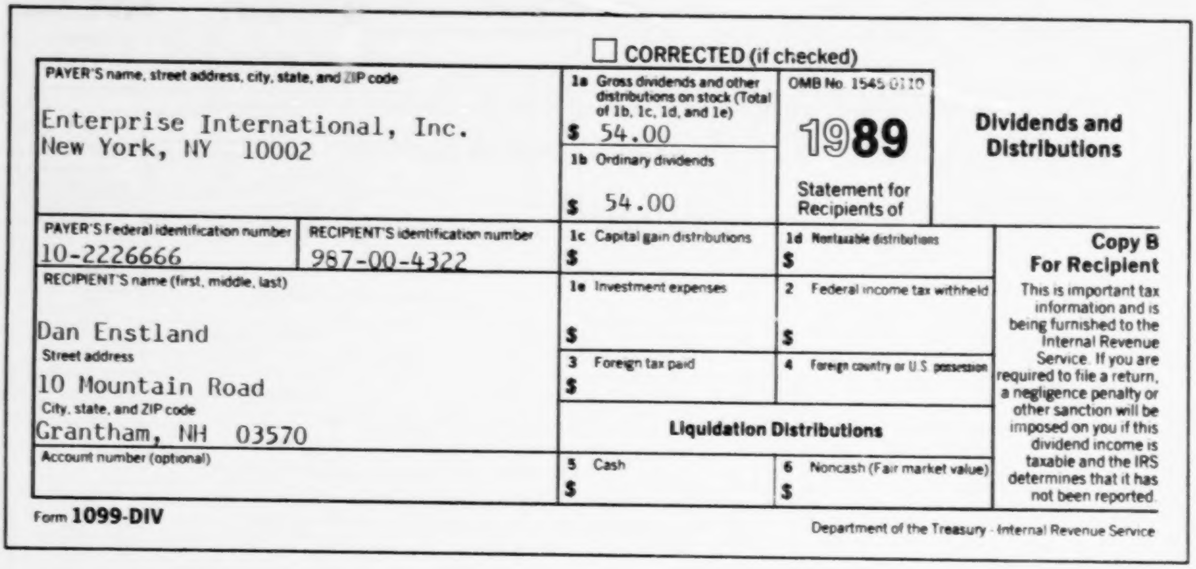
b. Must insurance policyholders add their insurance dividends to their stock dividends?

Yes________ No________

Exercise 8

Dan Eastland has brought his Forms 1099–DIV (see Exhibits 15, 16, and 17) to your site for assistance. He does not understand how to report them. Complete the income section of Form 1040 to report these dividends (Exhibit 18).

Exhibit 15



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
Enterprise International, Inc.
New York, NY 10002

1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 54.00

1b Ordinary dividends $ 54.00

OMB No. 1545-0110

1989

Statement for Recipients of

Dividends and Distributions

PAYER'S Federal identification number 10-2226666

RECIPIENT'S identification number 987-00-4322

1c Capital gain distributions $

1d Nontaxable distributions $

RECIPIENT'S name (first, middle, last)
Dan Enstland

Street address
10 Mountain Road

City, state, and ZIP code
Grantham, NH 03570

Account number (optional)

1e Investment expenses $

2 Federal income tax withheld $

3 Foreign tax paid $

4 Foreign country or U.S. possession

Liquidation Distributions

5 Cash $

6 Noncash (Fair market value) $

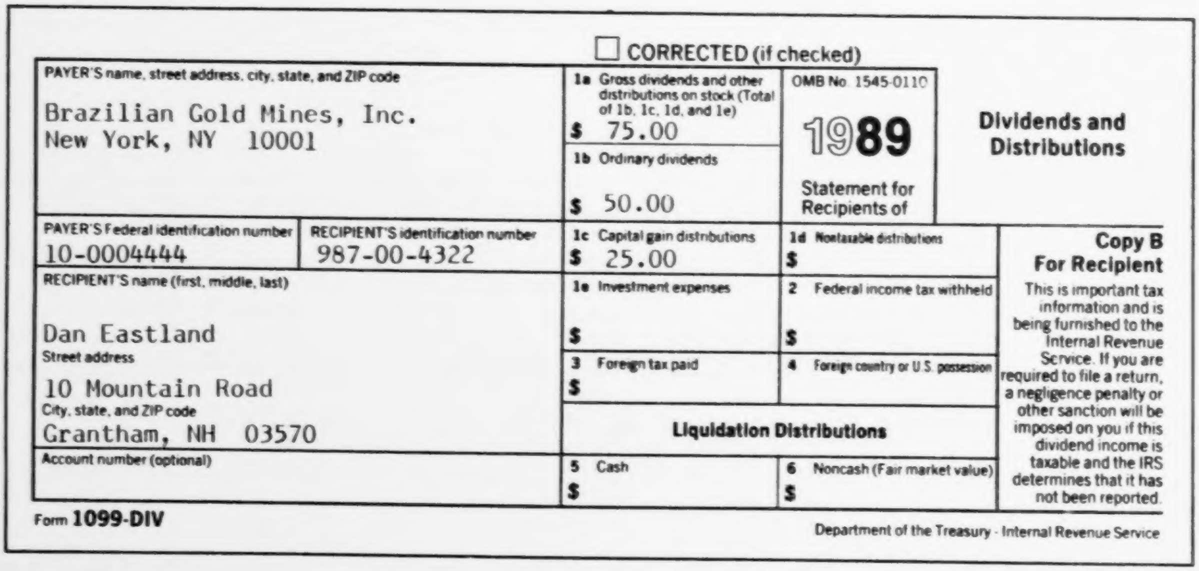
Copy B
For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 16



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
Brazilian Gold Mines, Inc.
New York, NY 10001

1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 75.00

1b Ordinary dividends $ 50.00

OMB No. 1545-0110

1989

Statement for Recipients of

Dividends and Distributions

PAYER'S Federal identification number 10-0004444

RECIPIENT'S identification number 987-00-4322

1c Capital gain distributions $ 25.00

1d Nontaxable distributions $

RECIPIENT'S name (first, middle, last)
Dan Eastland

Street address
10 Mountain Road

City, state, and ZIP code
Grantham, NH 03570

Account number (optional)

1e Investment expenses $

2 Federal income tax withheld $

3 Foreign tax paid $

4 Foreign country or U.S. possession

Liquidation Distributions

5 Cash $

6 Noncash (Fair market value) $

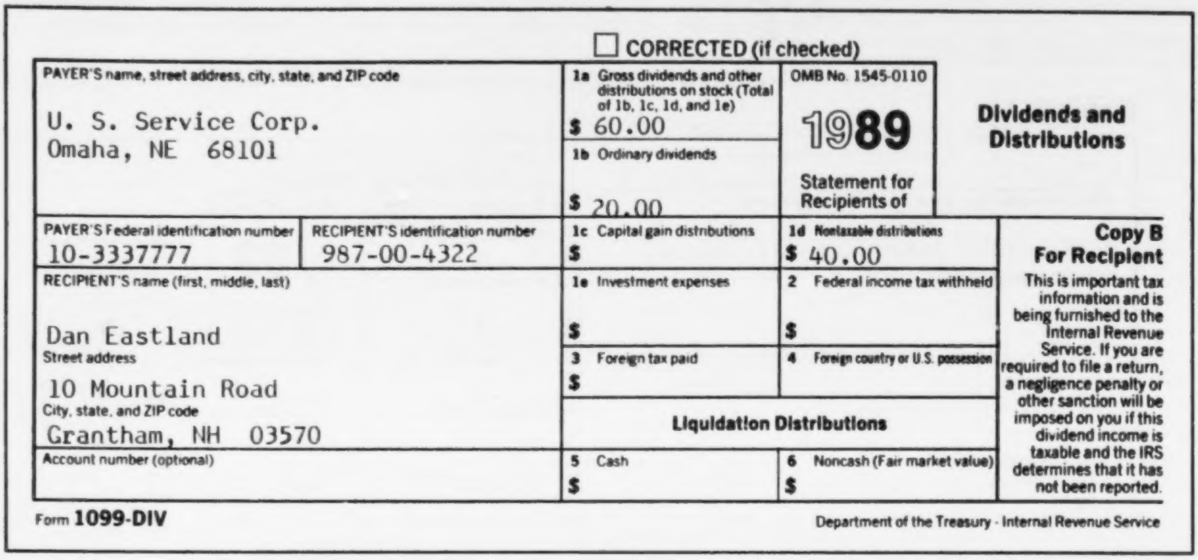
Copy B
For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 17



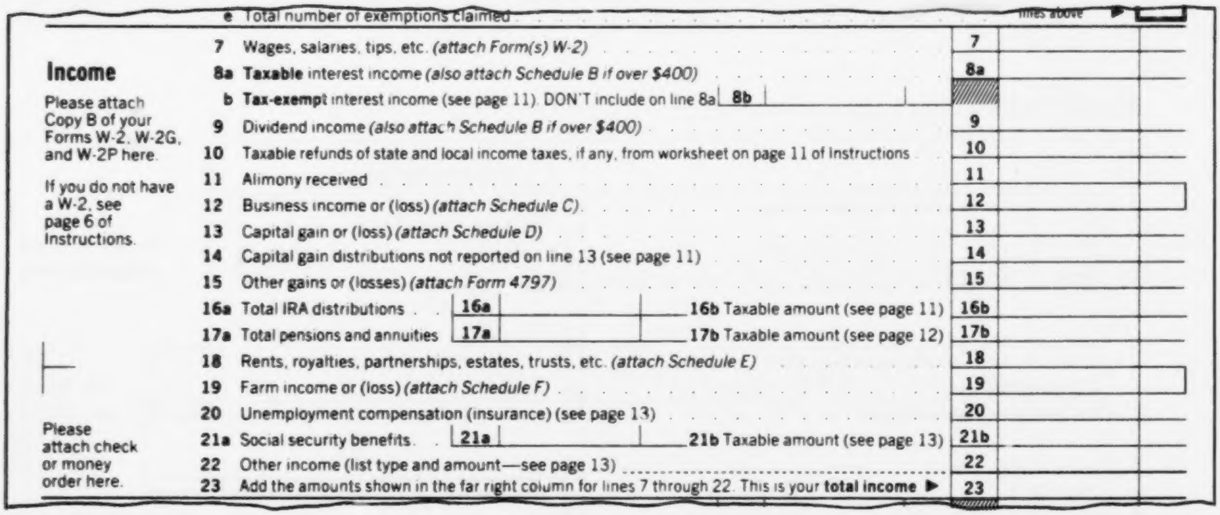
☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code U. S. Service Corp. Omaha, NE 68101		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 60.00	OMB No. 1545-0110 1989 Statement for Recipients of	**Dividends and Distributions**
		1b Ordinary dividends $ 20.00		
PAYER'S Federal identification number 10-3337777	RECIPIENT'S identification number 987-00-4322	1c Capital gain distributions $	1d Nontaxable distributions $ 40.00	**Copy B For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Dan Eastland Street address 10 Mountain Road City, state, and ZIP code Grantham, NH 03570		1e Investment expenses $	2 Federal income tax withheld $	
		3 Foreign tax paid $	4 Foreign country or U.S. possession	
		Liquidation Distributions		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 18



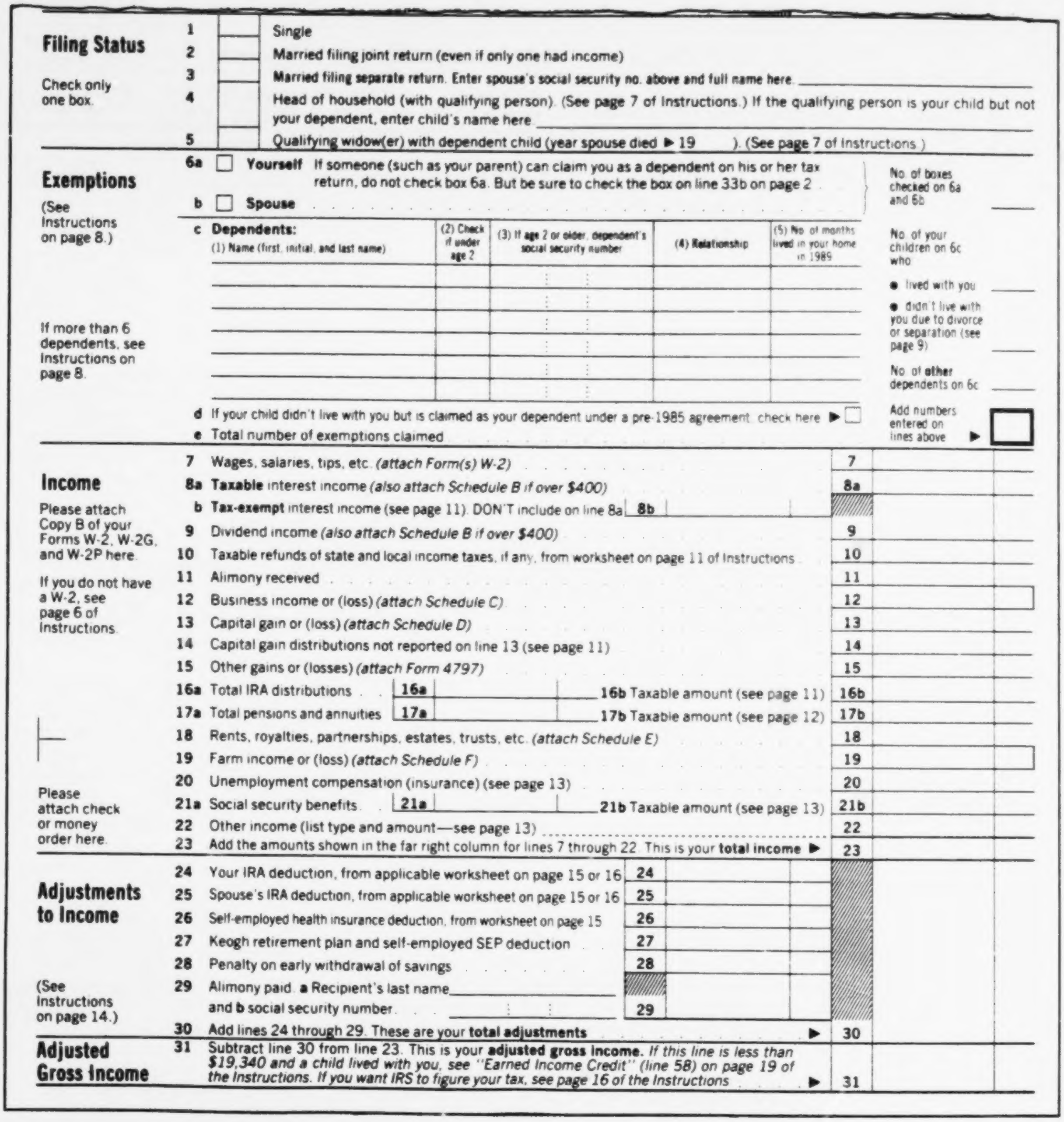
	e	Total number of exemptions claimed	lines above ▶	
Income	7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	
Please attach Copy B of your Forms W-2, W-2G, and W-2P here.	8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	
	b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b		
	9	Dividend income *(also attach Schedule B if over $400)*	9	
	10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
If you do not have a W-2, see page 6 of Instructions.	11	Alimony received	11	
	12	Business income or (loss) *(attach Schedule C)*	12	
	13	Capital gain or (loss) *(attach Schedule D)*	13	
	14	Capital gain distributions not reported on line 13 (see page 11)	14	
	15	Other gains or (losses) *(attach Form 4797)*	15	
	16a	Total IRA distributions 16a 16b Taxable amount (see page 11)	16b	
	17a	Total pensions and annuities 17a 17b Taxable amount (see page 12)	17b	
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
	19	Farm income or (loss) *(attach Schedule F)*	19	
	20	Unemployment compensation (insurance) (see page 13)	20	
Please attach check or money order here.	21a	Social security benefits 21a 21b Taxable amount (see page 13)	21b	
	22	Other income (list type and amount—see page 13)	22	
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

Exercise 9

Don and Ella Boyd are filing a joint return. Mr. Boyd received $525 in gross dividends from the Lincoln Corporation, of which $200 is a capital gain distribution and $50 is a nontaxable distribution. Mr. Boyd also received $200 in interest income from the State Bank of Ohio and Mrs. Boyd received $250 in interest from the First Bank of Detroit. Neither Dan nor Ella had any foreign accounts. They are not required to file Schedule D.

Complete their Schedule B and related lines of Form 1040 (see Exhibits 19 and 20).

Exhibit 19



Filing Status

Check only one box.

1 ☐ Single

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____

4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ____

5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.

b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b	▨	
9	Dividend income *(also attach Schedule B if over $400)*	9	
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions 16a ____ 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a ____ 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits 21a ____ 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13)	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

Adjustments to Income

(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24		▨	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25		▨	
26	Self-employed health insurance deduction, from worksheet on page 15	26		▨	
27	Keogh retirement plan and self-employed SEP deduction	27		▨	
28	Penalty on early withdrawal of savings	28		▨	
29	Alimony paid. **a** Recipient's last name ____ and **b** social security number	29		▨	
30	Add lines 24 through 29. These are your **total adjustments** ▶			30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	

Exhibit 20

Schedules A&B (Form 1040) 1989 OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)

Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. **08**

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income. (List name of payer.) ▶	2	
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

PROOF COPY

Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income				Amount
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶			4	
5 Add the amounts on line 4. Enter the total here			5	
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6			▨
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7			▨
8 Add the amounts on lines 6 and 7. Enter the total here			8	
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶			9	

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	**Yes**	**No**
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		
b If "Yes," enter the name of the foreign country ▶	▨	▨
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Miscellaneous Income

State and Local Tax Refunds

A taxpayer who received a state or local income tax refund this year generally must report it on Form 1040, line 10, if the taxpayer itemized deductions in the earlier year and deducted state income tax withheld or paid during that year. A taxpayer in this situation should fill out the worksheet in the instructions for Form 1040 to figure the taxable portion of the refund. The taxpayer does not report the amount of refund that did not reduce tax in the prior year. A taxpayer who did not itemize need not report refunds.

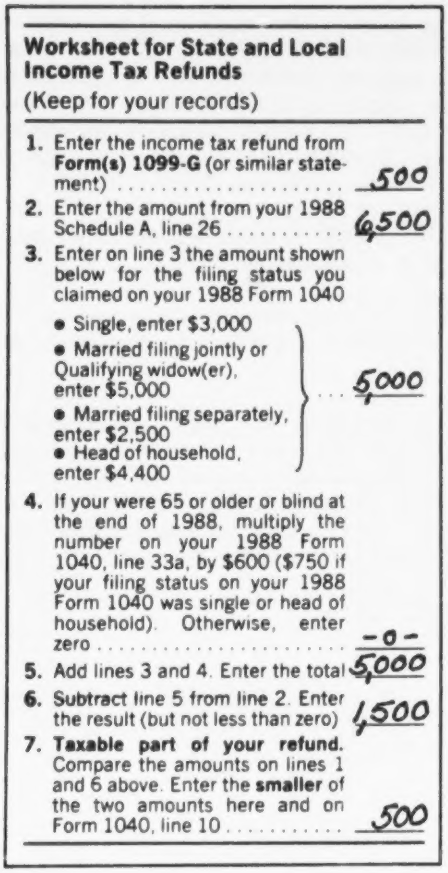
If the refund reflects any deductions, credits, or payments for other than 1988, see Publication 525, *Taxable and Nontaxable Income.*

Payers of state and local income tax refunds generally will report all payments of $10 or more on Form 1099–G, *Statement for Recipients of Certain Government Payments.*

Example

In May 1989, after Bill and Sarah Fairfax filed their 1988 state income tax return, they received a $500 refund from the state. On their 1988 Schedule A (Form 1040), they had deducted $1,000 for state income tax paid. Their itemized deductions were $6,500 (line 26 on their 1988 Schedule A). Bill and Sarah are both under 65. This entire amount reduced their taxable income in 1988. Their completed worksheet is shown as Exhibit 21.

Exhibit 21



Worksheet for State and Local Income Tax Refunds
(Keep for your records)

1. Enter the income tax refund from **Form(s) 1099-G** (or similar statement)	500
2. Enter the amount from your 1988 Schedule A, line 26	6,500
3. Enter on line 3 the amount shown below for the filing status you claimed on your 1988 Form 1040 • Single, enter $3,000 • Married filing jointly or Qualifying widow(er), enter $5,000 • Married filing separately, enter $2,500 • Head of household, enter $4,400	5,000
4. If your were 65 or older or blind at the end of 1988, multiply the number on your 1988 Form 1040, line 33a, by $600 ($750 if your filing status on your 1988 Form 1040 was single or head of household). Otherwise, enter zero	-0-
5. Add lines 3 and 4. Enter the total	5,000
6. **Subtract** line 5 from line 2. Enter the result (but not less than zero)	1,500
7. **Taxable part of your refund.** Compare the amounts on lines 1 and 6 above. Enter the **smaller** of the two amounts here and on Form 1040, line 10	500

Alimony Received

Alimony or separate maintenance payments made under a court decree are taxable income to the person receiving them. The person making the payments deducts them as an adjustment to gross income. Child support payments are not alimony. The person making them cannot deduct them, nor are they income to the recipient. Unless a written agreement or divorce decree specifies that payments are for child support, they generally are considered alimony.

Income from Business or Profession

Refer taxpayers to Publication 334, *Tax Guide for Small Business,* if any source of their income is from a business or a profession.

Capital Gains and Losses

Sales of stocks are reported on Schedule D. There are sales of other capital assets. One of these is the sale of a residence. Both the sales of stocks and the sale of a residence are covered in Module IV. The sale or exchange of other assets is beyond the scope of the volunteer program and should be referred to a professional tax preparer, or information can be obtained from Publication 544, *Sales and Other Dispositions of Assets.*

Capital Gain Distributions

If the taxpayer does not need to use Schedule D, he or she reports the capital gain distribution on Form 1040, line 14. This is the amount from Schedule B, line 6, for a taxpayer filing Schedule B.

Sale of Business Property

The sale or involuntary conversion of business property is beyond the scope of the volunteer program. These questions should be referred to a professional tax preparer. Publication 544, *Sales and Other Dispositions of Assets,* also may be helpful.

Pension Income

Module IV, Lesson 3, covers the treatment of income from pensions, annuities, and IRA distributions.

Rental, Partnership, Estate, and Trust Income

Any taxpayers who receive income from one of these sources should not be seeking volunteer assistance. Again, these are business types of income to be referred to a professional tax preparer. Publication 527, *Residential Rental Property,* would be helpful to someone with rental income.

Farm Income

Advise taxpayers with farm income to see Publication 225, *Farmer's Tax Guide,* or a professional tax preparer.

Unemployment Compensation

On Form 1040, line 20, enter the total unemployment compensation received, as reported on Form 1099-G. All of it must be included in taxable income.

Supplemental unemployment benefits received from an employer's fund are fully taxable as wages if the employee did not contribute to the fund. Report these amounts on line 7, Form 1040.

Taxable Social Security Benefits

Some taxpayers must include part of their social security benefits in taxable income. Social security benefits include any monthly benefit under Title II of the Social Security Act, or the equivalent portion of a railroad retirement benefit.

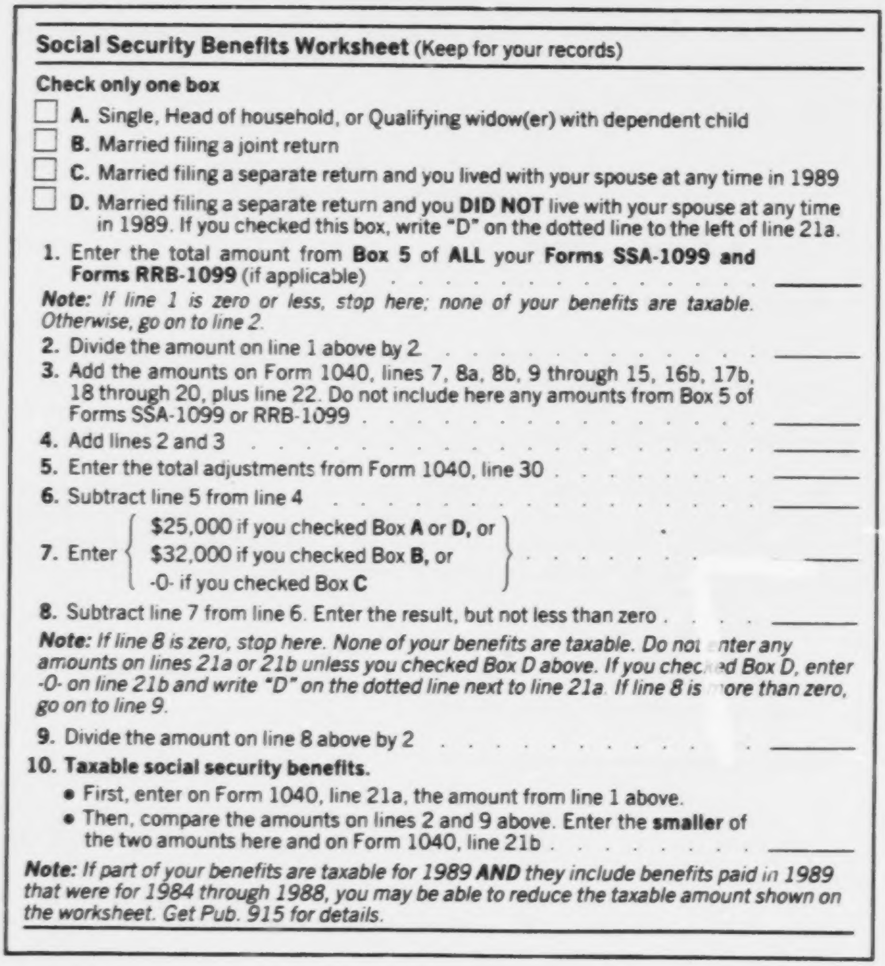
Generally, if a taxpayer's income is over a certain base amount, part of the social security is taxable. The taxable amount is the lesser of one-half of the social security benefits received or one-half of the excess combined income (from line 10 of the worksheet) that is over the base amount.

The base amounts are:

- $32,000 for individuals filing joint returns,
- $0 for married individuals filing separate returns unless the husband and wife lived apart all year, and
- $25,000 for all other filers.

A worksheet in the forms instructions (Exhibit 22) is used in computing taxable social security benefits.

Exhibit 22



Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child
☐ **B.** Married filing a joint return
☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989
☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) ______

Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.

2. Divide the amount on line 1 above by 2 ______
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 ______
4. Add lines 2 and 3 ______
5. Enter the total adjustments from Form 1040, line 30 ______
6. Subtract line 5 from line 4 ______
7. Enter
   - $25,000 if you checked Box **A** or **D**, or
   - $32,000 if you checked Box **B**, or
   - -0- if you checked Box **C** ______
8. Subtract line 7 from line 6. Enter the result, but not less than zero ______

***Note:** If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 ______
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b ______

***Note:** If part of your benefits are taxable for 1989 **AND** they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

A taxpayer who gets social security benefits will receive a statement on Form SSA–1099, *Social Security Benefit Statement*, showing the total benefits paid during the year. The statement also shows any social security benefits the taxpayer repaid during the year and benefits that were reduced because of workers' compensation received. Form RRB–1099, *Statement for Recipients of Payments by the Railroad Retirement Board*, is used for railroad retirement benefits.

For more information on the taxability of social security and railroad retirement benefits, see Module IV, Lesson 4, *Taxable Social Security Benefits*, or Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits.*

Broker and Barter Exchange Transactions

A taxpayer for whom a broker sold real estate, stocks, bonds, commodities, etc., or who exchanged property or services through a barter exchange, should receive Form 1099-B from the broker or barter exchange. Sales of stocks and the sale of a home are explained in Module IV. For more information about barter exchanges, see Publication 17.

Other Income

Form 1040 has no specific line or schedule for various kinds of taxable income. Report this income on Form 1040, line 22. Examples include prizes and awards, gambling winnings, jury duty fees, and director's fees. If a particular item is clearly taxable and it does not fit in any of the categories having specific income lines, the "Other income" line is the place to report it. Be sure to identify the income item by its nature and source.

For more information about other income, see Publication 17.

Total Income

To arrive at total income from all sources, add the right column of Form 1040, from line 7 through line 22.

Exercise 10

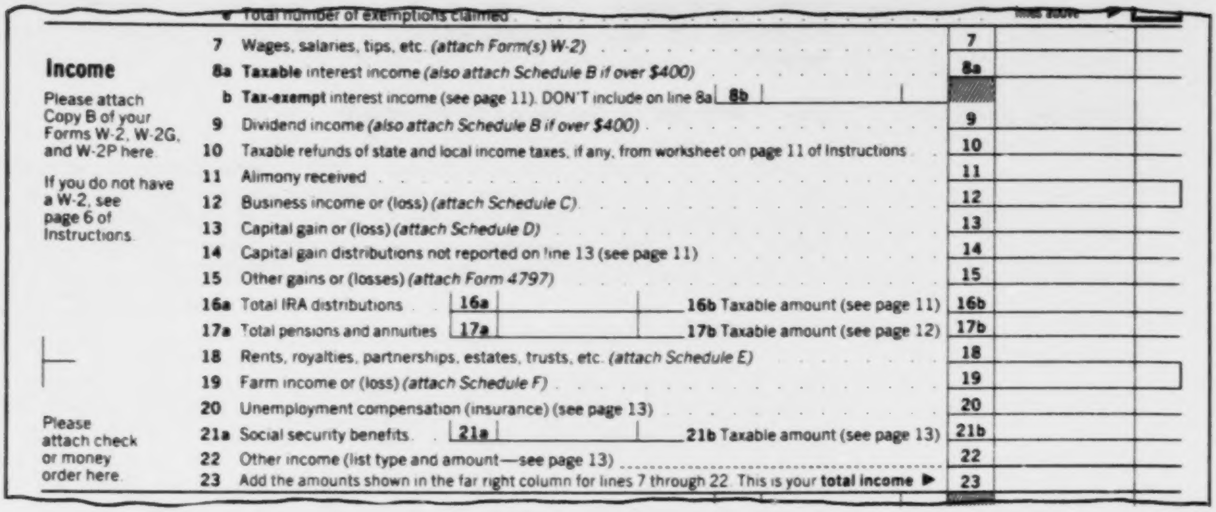
Fill in the blanks:

a. A state or local income tax _______________ may be taxable if the taxpayer itemized deductions and deducted state or local income tax paid or withheld in the year to which the _______________ applies.
b. Alimony received is _______________.
c. Self-employed persons should be referred to _______________ or _______________.
d. Unemployment compensation must be _______________ and is _______________.
e. Jury duty fees and gambling winnings should be reported on Form 1040, line _______________.

Exercise 11

Laurie Lamar, a single taxpayer, wants you to help her with her income tax return. She had wages of $7,500, interest income of $375, gross dividends of $250 (of which $50 was a nontaxable distribution and $75 was a capital gain distribution), and unemployment compensation of $1,000. She also won $2,500 in her state sweepstakes. She had no adjustments to income and no Schedule D transactions. Complete the *Income* section of Form 1040 (Exhibit 23) for Laurie.

Exhibit 23



Total number of exemptions claimed

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

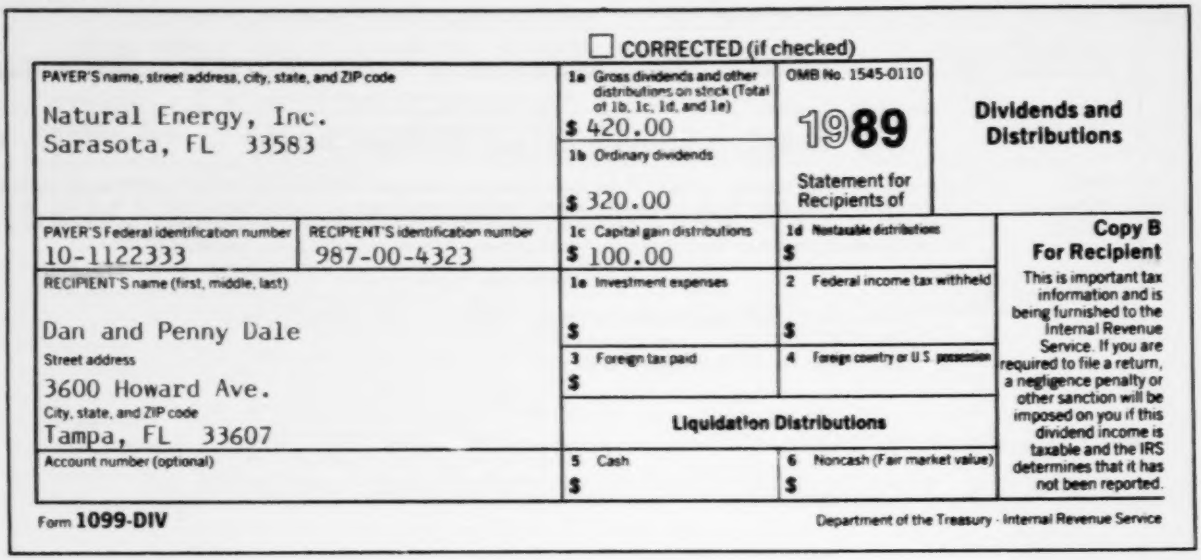
Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a **8b**	
9	Dividend income *(also attach Schedule B if over $400)*	9
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10
11	Alimony received	11
12	Business income or (loss) *(attach Schedule C)*	12
13	Capital gain or (loss) *(attach Schedule D)*	13
14	Capital gain distributions not reported on line 13 (see page 11)	14
15	Other gains or (losses) *(attach Form 4797)*	15
16a	Total IRA distributions **16a** **16b** Taxable amount (see page 11)	16b
17a	Total pensions and annuities **17a** **17b** Taxable amount (see page 12)	17b
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18
19	Farm income or (loss) *(attach Schedule F)*	19
20	Unemployment compensation (insurance) (see page 13)	20
21a	Social security benefits **21a** **21b** Taxable amount (see page 13)	21b
22	Other income (list type and amount—see page 13)	22
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23

Exercise 12

Dan and Penny Dale are filing jointly. Penny's Form W-2 shows $4,672 in wages; Dan's shows $11,750. Penny has a Form 1099-G reporting $432 in unemployment compensation. They have a Form 1099-INT that reports $285 of interest income. They also have stock investments and have two Forms 1099-DIV (Exhibits 24 and 25). Penny won a Chamber of Commerce contest in which the prize was $500 in cash. Prepare Part II of their Schedule B (Exhibit 26) and the *Income* section of their Form 1040 (Exhibit 27). They have no foreign bank accounts or trusts and no Schedule D transactions.

Exhibit 24

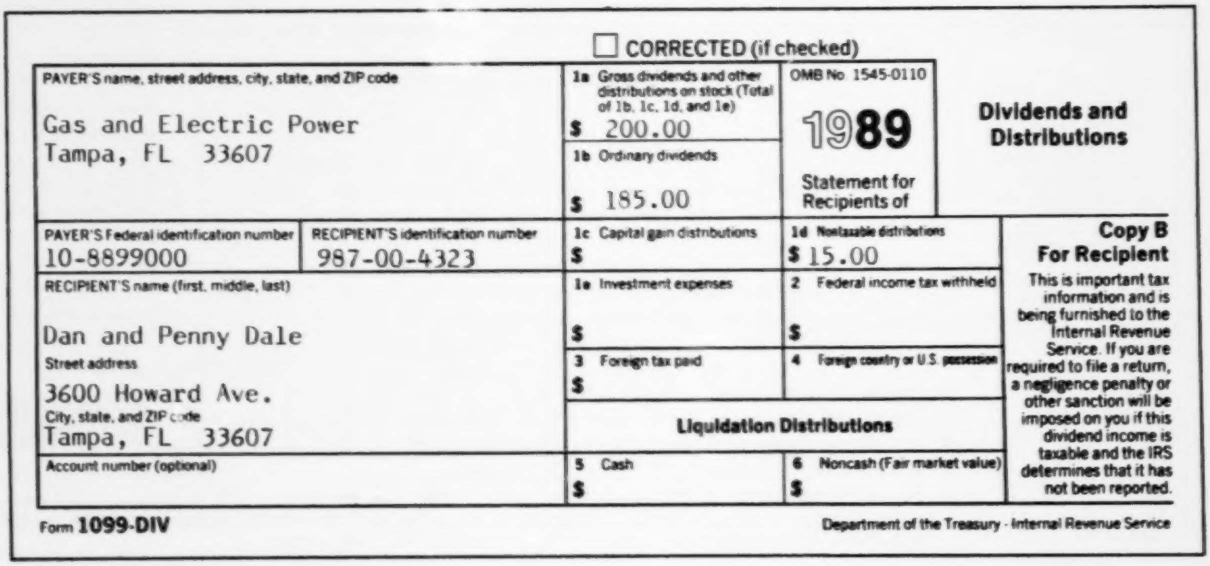


☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Natural Energy, Inc. Sarasota, FL 33583		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 420.00 1b Ordinary dividends $ 320.00	OMB No. 1545-0110 1989 Statement for Recipients of	Dividends and Distributions
PAYER'S Federal identification number 10-1122333	RECIPIENT'S identification number 987-00-4323	1c Capital gain distributions $ 100.00	1d Nontaxable distributions $	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Dan and Penny Dale Street address 3600 Howard Ave. City, state, and ZIP code Tampa, FL 33607		1e Investment expenses $	2 Federal income tax withheld $	
		3 Foreign tax paid $	4 Foreign country or U.S. possession	
		Liquidation Distributions		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV** Department of the Treasury - Internal Revenue Service

Exhibit 25

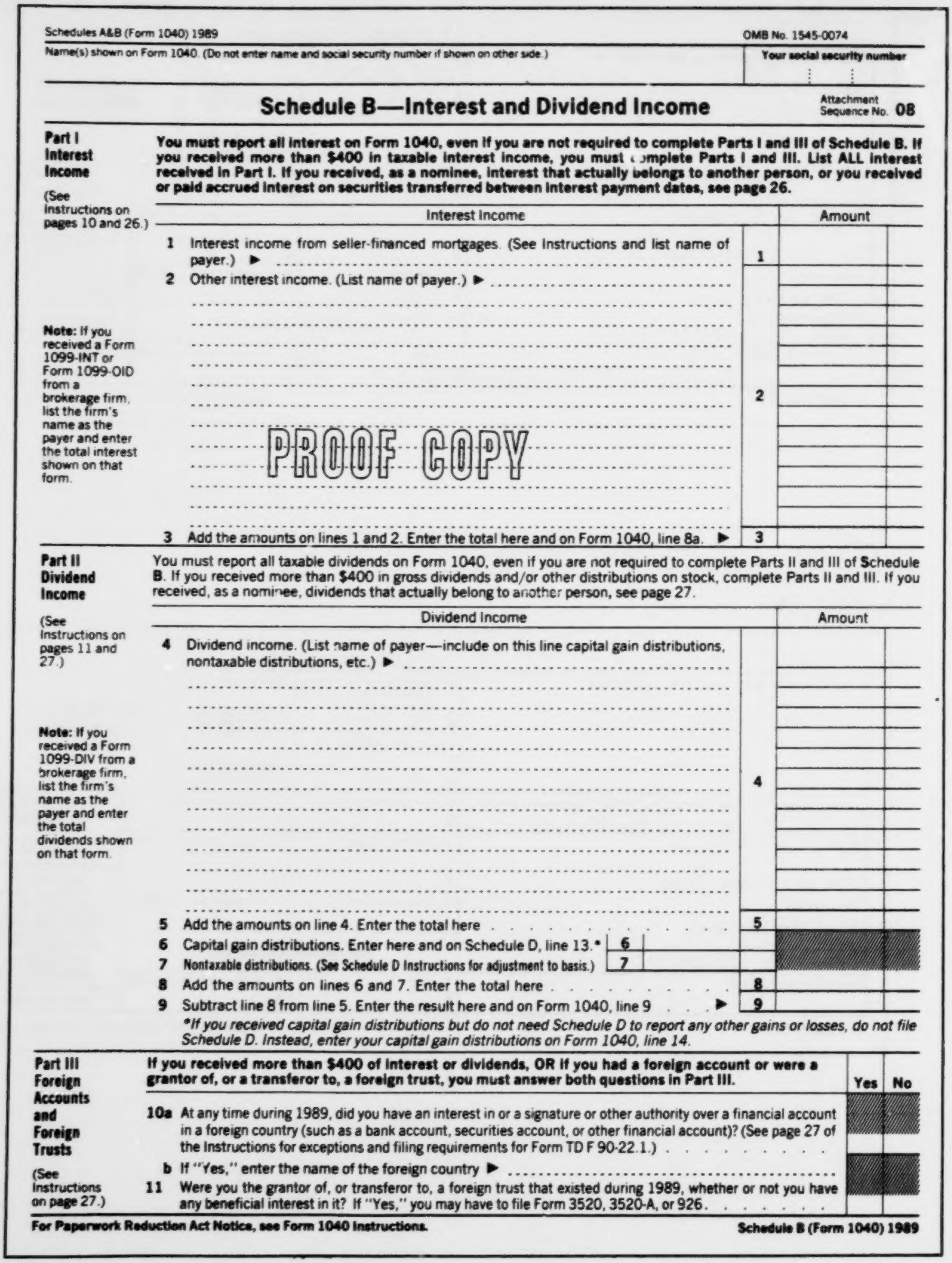


☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Gas and Electric Power Tampa, FL 33607		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 200.00 1b Ordinary dividends $ 185.00	OMB No. 1545-0110 1989 Statement for Recipients of	Dividends and Distributions
PAYER'S Federal identification number 10-8899000	RECIPIENT'S identification number 987-00-4323	1c Capital gain distributions $	1d Nontaxable distributions $ 15.00	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Dan and Penny Dale Street address 3600 Howard Ave. City, state, and ZIP code Tampa, FL 33607		1e Investment expenses $	2 Federal income tax withheld $	
		3 Foreign tax paid $	4 Foreign country or U.S. possession	
		Liquidation Distributions		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV** Department of the Treasury - Internal Revenue Service

Exhibit 26



Schedules A&B (Form 1040) 1989 — OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)

Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. **08**

Part I Interest Income

(See instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income. (List name of payer.) ▶	2	
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income			Amount
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶		4	
5 Add the amounts on line 4. Enter the total here		5	
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6		▨
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7		▨
8 Add the amounts on lines 6 and 7. Enter the total here		8	
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶		9	

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

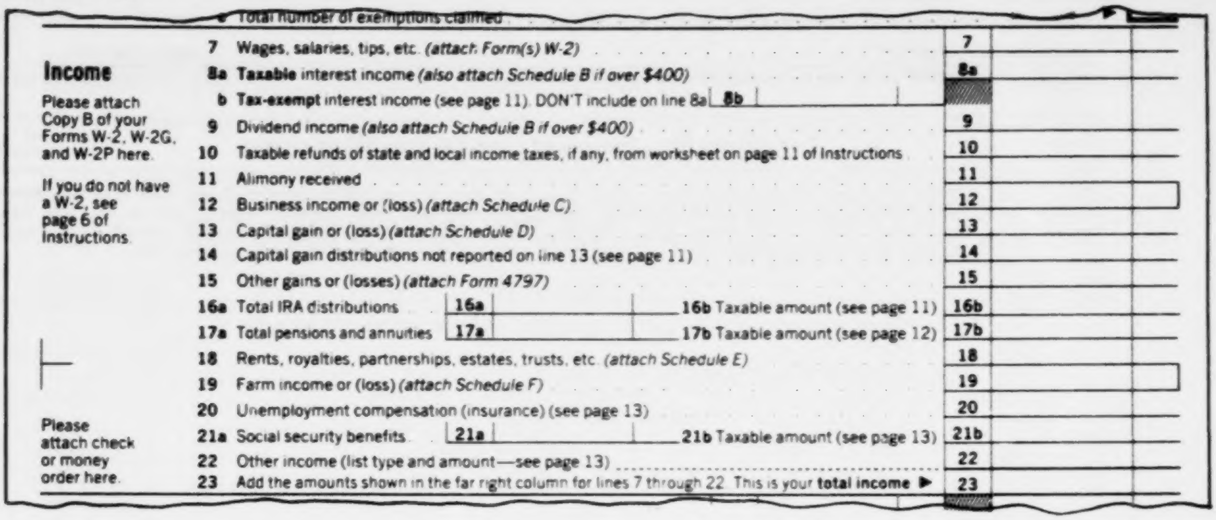
Part III Foreign Accounts and Foreign Trusts

(See instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)	▨	▨
b If "Yes," enter the name of the foreign country ▶		
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.	▨	▨

For Paperwork Reduction Act Notice, see Form 1040 Instructions. — **Schedule B (Form 1040) 1989**

Exhibit 27



e Total number of exemptions claimed

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a **8b**	
9	Dividend income *(also attach Schedule B if over $400)*	9
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10
11	Alimony received	11
12	Business income or (loss) *(attach Schedule C)*	12
13	Capital gain or (loss) *(attach Schedule D)*	13
14	Capital gain distributions not reported on line 13 (see page 11)	14
15	Other gains or (losses) *(attach Form 4797)*	15
16a	Total IRA distributions **16a** — **16b** Taxable amount (see page 11)	16b
17a	Total pensions and annuities **17a** — **17b** Taxable amount (see page 12)	17b
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18
19	Farm income or (loss) *(attach Schedule F)*	19
20	Unemployment compensation (insurance) (see page 13)	20
21a	Social security benefits **21a** — **21b** Taxable amount (see page 13)	21b
22	Other income (list type and amount—see page 13)	22
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23

Summary

The *Income* section of Form 1040 is used to report all types of taxable income. The taxable amount in the right column may be less than the amount received, because certain exclusions and deductions are figured on a schedule, a worksheet, or Form 1040. Completing the *Income* section is one of the major tasks in preparing Form 1040.

Answers to Exercises

1. $7,500.
2. $21,625.
3. $1,000 on Schedule B, $1,000 on Form 1040, line 8a.
4. Enter $392 on Form 1040, line 8a.
5. See filled-in Exhibit 9.
6. See filled-in Exhibit 14.
7. a. On line 8a. They are taxable interest.
   b. No (Unless the dividend exceeds the insurance premium).
8. See filled-in Exhibit 18.
9. See filled-in Exhibits 19 and 20.
10. a. refund, refund.
    b. taxable.
    c. professional tax preparers, IRS publications.
    d. reported, taxable.
    e. 22.
11. See filled-in Exhibit 23.
12. See filled-in Exhibits 26 and 27.

Exhibit 9, filled-in

Schedules A&B (Form 1040) 1989 | OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.) | Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount	
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1		
2 Other interest income. (List name of payer.) ▶	2		
FIRST CITY SAVINGS AND LOAN		320	00
SECOND NATIONAL BANK C.D.		100	00
U.S. SERIES "H" SAVINGS BONDS		45	00
EMPLOYEES CREDIT UNION		30	00
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	495	00

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Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income				Amount	
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶			4		
5 Add the amounts on line 4. Enter the total here			5		
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6				
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7				
8 Add the amounts on lines 6 and 7. Enter the total here			8		
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶			9		

If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.

	Yes	No
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		✓
b If "Yes," enter the name of the foreign country ▶		
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		✓

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exhibit 14, filled-in

Schedules A&B (Form 1040) 1989 OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)

Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income. (List name of payer.) ▶	2	
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income			Amount
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶		4	
ACME STEEL CORP.			485 00
Jonesville Industries, Inc.			750 00
Smith Electrical, Inc.			225 00
5 Add the amounts on line 4. Enter the total here		5	1,460 00
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6 225 00		
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7 50 00		
8 Add the amounts on lines 6 and 7. Enter the total here		8	275 00
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶		9	1,185 00

If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		✓
b If "Yes," enter the name of the foreign country ▶		
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		✓

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exhibit 18, filled-in

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: DAN
Last name: EASTLAND
Your social security number: 987 00 4322
If joint return, spouse's first name and initial
Last name
Spouse's social security number
Home address (number and street). (If P.O. box, see page 7.): 10 MOUNTAIN ROAD
Apt. no.
City, town, or post office, state and ZIP code. (If foreign address, see page 7.): GRANTHAM, NH 03570

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign
Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☒ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

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If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 9) ______

No. of other dependents on 6c ______

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed
Add numbers entered on lines above ▶ 1

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b		
9	Dividend income *(also attach Schedule B if over $400)*	9	124 00
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	25 00
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions 16a ____ 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a ____ 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits 21a ____ 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13)	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

Adjustments to Income

(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name ______ and **b** social security number	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	

Exhibit 19, filled-in

Schedules A&B (Form 1040) 1989

OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)

DON AND EllA BOYD

Your social security number 987 00 0001

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount	
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1		
2 Other interest income. (List name of payer.) ▶	2		
STATE BANK of Ohio		200	00
FIRST BANK of DETROIT		250	00
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	450	00

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income				Amount	
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶			4		
LINCOLN CORP				525	00
5 Add the amounts on line 4. Enter the total here			5	525	00
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6	200 00			
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7	50 00			
8 Add the amounts on lines 6 and 7. Enter the total here			8	250	00
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶			9	275	00

If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.

	Yes	No
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		X
b If "Yes," enter the name of the foreign country ▶		
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		X

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule B (Form 1040) 1989

Exhibit 20, filled-in

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial Don	Last name Boyd	**Your social security number** 987 00 0001
If joint return, spouse's first name and initial Ella	Last name Boyd	**Spouse's social security number** 987 00 0002
Home address (number and street). (If P.O. box, see page 7.) 1070 Palm Ave.	Apt. no.	**For Privacy Act and Paperwork Reduction Act Notice, see Instructions.**
City, town, or post office, state and ZIP code. (If foreign address, see page 7.) West City, FL 33000		

Presidential Election Campaign ▶
Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.
b ☒ **Spouse**
No. of boxes checked on 6a and 6b: 2

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

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If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 9) ______

No. of other dependents on 6c ______

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed
Add numbers entered on lines above ▶ 2

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	450 00
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b		
9	Dividend income *(also attach Schedule B if over $400)*	9	275 00
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	200 00
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions 16a ______ 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a ______ 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits 21a ______ 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13)	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

Adjustments to Income

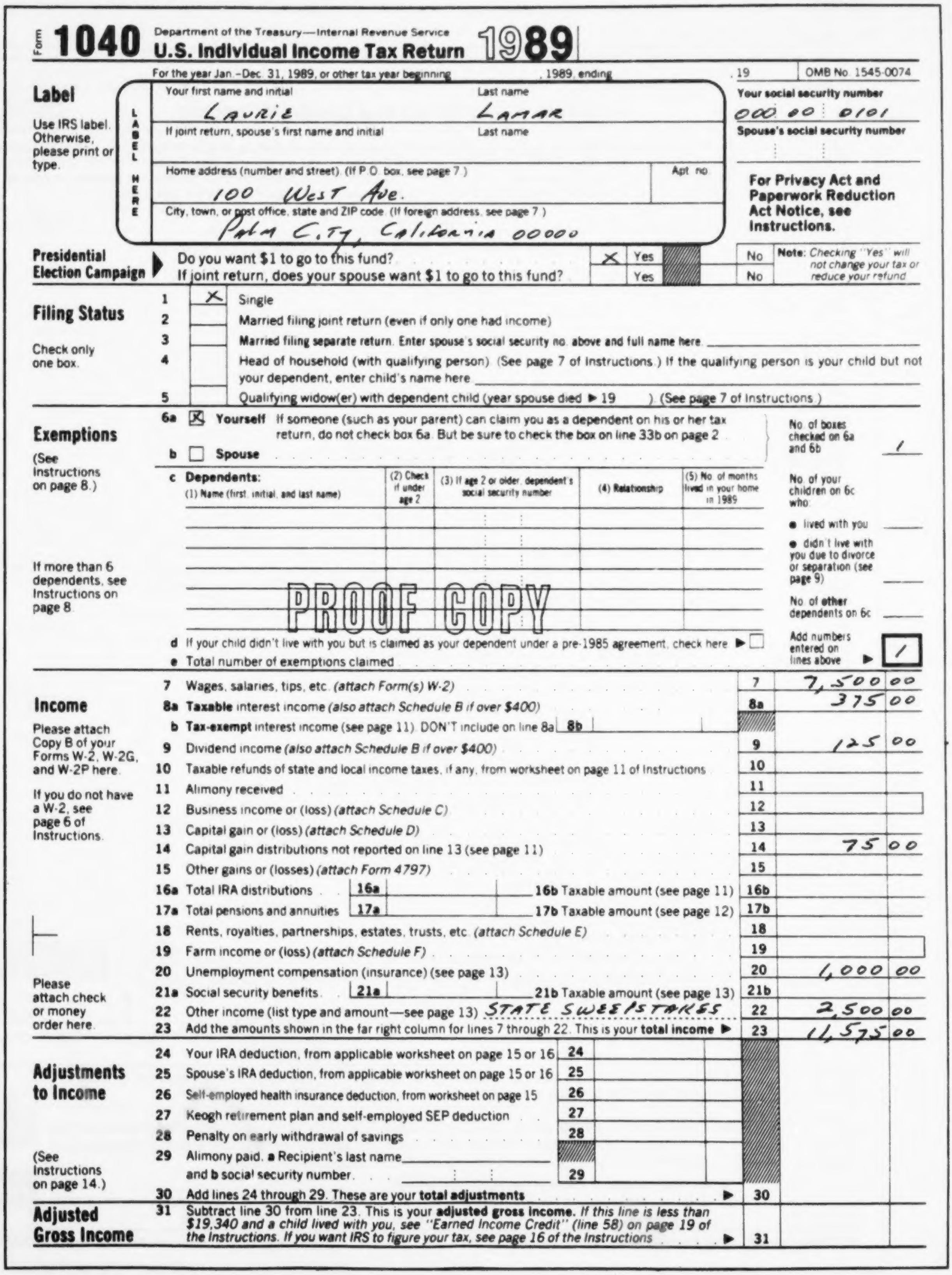
(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name ______ and **b** social security number	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	

Exhibit 23, filled-in



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.-Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label
Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: LAURIE
Last name: LAMAR
Your social security number: 000 00 0101
If joint return, spouse's first name and initial
Last name
Spouse's social security number
Home address (number and street). (If P.O. box, see page 7.): 100 West Ave.
Apt. no.
City, town, or post office, state and ZIP code. (If foreign address, see page 7.): Palm City, California 00000

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign
Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status
Check only one box.

1 ☒ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here.
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here.
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions
(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.
b ☐ **Spouse**
No. of boxes checked on 6a and 6b: 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

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No. of your children on 6c who:
- lived with you
- didn't live with you due to divorce or separation (see page 9)

No. of other dependents on 6c

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed
Add numbers entered on lines above ▶ 1

Income
Please attach Copy B of your Forms W-2, W-2G, and W-2P here.
If you do not have a W-2, see page 6 of Instructions.
Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	7,500 00
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	375 00
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b		
9	Dividend income *(also attach Schedule B if over $400)*	9	125 00
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	75 00
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions 16a 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	1,000 00
21a	Social security benefits 21a 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13) STATE SWEEPSTAKES	22	2,500 00
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	11,575 00

Adjustments to Income
(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name and **b** social security number	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31 Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶ 31

Exhibit 26, filled-in

Schedules A&B (Form 1040) 1989 OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)	Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

	Interest Income		Amount
1	Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2	Other interest income. (List name of payer.) ▶	2	
3	Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

	Dividend Income				Amount
4	Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶			4	
	NATURAL Energy, Inc				420 00
	Gas and Electric Power				200 00
5	Add the amounts on line 4. Enter the total here			5	620 00
6	Capital gain distributions. Enter here and on Schedule D, line 13.*	6	100 00		
7	Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7	15 00		
8	Add the amounts on lines 6 and 7. Enter the total here			8	115 00
9	Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶			9	505 00

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

	If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
10a	At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		✓
b	If "Yes," enter the name of the foreign country ▶		
11	Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		✓

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exhibit 27, filled-in

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 1989

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Dan — Last name: Dale

If joint return, spouse's first name and initial: Penny — Last name: Dale

Home address (number and street). (If P.O. box, see page 7.): 101 Grove Ave. — Apt. no.

City, town, or post office, state and ZIP code. (If foreign address, see page 7.): East City, MN 00000

Your social security number 987 00 4323

Spouse's social security number 149 00 0000

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign ▶ Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2

b ☒ **Spouse**

No. of boxes checked on 6a and 6b: 2

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

PROOF COPY

No. of your children on 6c who
- lived with you ______
- didn't live with you due to divorce or separation (see page 9) ______

No. of **other** dependents on 6c ______

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed — Add numbers entered on lines above ▶ 2

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	16,422 00
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	285 00
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a — 8b		
9	Dividend income *(also attach Schedule B if over $400)*	9	505 00
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	100 00
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions — 16a — 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities — 17a — 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	432 00
21a	Social security benefits — 21a — 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13) Chamber of Commerce Prize	22	500 00
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	18,244 00

Adjustments to Income

(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24			
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25			
26	Self-employed health insurance deduction, from worksheet on page 15	26			
27	Keogh retirement plan and self-employed SEP deduction	27			
28	Penalty on early withdrawal of savings	28			
29	Alimony paid. **a** Recipient's last name ______ and **b** social security number ______	29			
30	Add lines 24 through 29. These are your **total adjustments** ▶			30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	

Module III

Lesson 4

Adjustments to Income

Objectives

At the end of this lesson you will be able to:

1. Determine whether taxpayers qualify for the deduction for individual retirement arrangements (IRAs).
2. Figure the correct adjustment to income for:
    a. The IRA deduction,
    b. Penalty for early withdrawal of savings, and
    c. Alimony paid.
3. Report each deduction correctly on Form 1040 and determine adjusted gross income.

Contents

Introduction

Contributions to an IRA

Penalty for Early Withdrawal of Savings

Alimony Paid

Other Adjustments

Total Adjustments

Adjusted Gross Income (AGI)

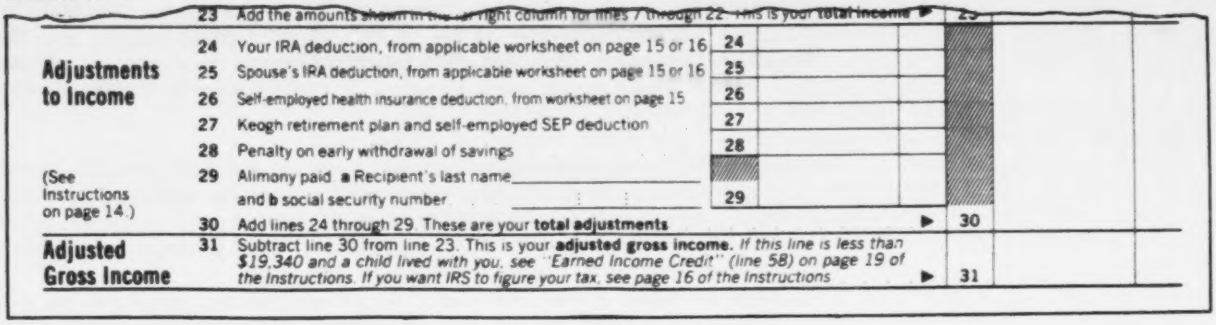
Summary

Answers to Exercises

Introduction

Total (gross) income minus adjustments is adjusted gross income. An adjustment is an item that a taxpayer can subtract from total income without having to itemize deductions. Some adjustments are business-related and fall outside the scope of VITA or TCE training. You will study three adjustments: contributions (payments) to an individual retirement arrangement (IRA), penalty for early withdrawal of savings, and alimony paid.

Exhibit 1



	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23
Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	▨
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	▨
	26	Self-employed health insurance deduction, from worksheet on page 15	26	▨
	27	Keogh retirement plan and self-employed SEP deduction	27	▨
	28	Penalty on early withdrawal of savings	28	▨
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name ______ and **b** social security number ______	▨ 29	▨
	30	Add lines 24 through 29. These are your **total adjustments** ▶		30
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶		31

Contributions to an IRA

An individual retirement arrangement (IRA) is a tax-sheltered savings plan that taxpayers set up for themselves. Contributions (payments) to the plan may be deductible from total income if certain conditions are met. Earnings from an IRA are not taxed until they are distributed.

Anyone who contributes more than allowed, takes distributions before age 59½ (unless disabled), or receives smaller distributions than required after reaching age 70½, is subject to additional tax. If you meet taxpayers with these or any other IRA complexities, refer them to a professional tax preparer or to Publication 590, *Individual Retirement Arrangements (IRAs).*

Who May Have an IRA

Anyone may have an IRA if he or she receives payments for personal services (compensation), such as wages, salaries, commissions, tips, bonuses, professional fees, and earnings from self-employment. Alimony or separate maintenance payments that are included in gross income are compensation for IRA purposes. Qualifying income for an IRA does ***not*** include income from property, such as interest, rents, dividends, pension and annuity income, or income not includible in gross income on the return.

A working married taxpayer with an unemployed spouse, or whose spouse received very little earned income (less than $250) and chooses to be treated as having no earned income for IRA purposes, on a joint return, for the year, may set up an IRA for the spouse.

A taxpayer may not take a deduction for any payment made to an IRA during or after the tax year in which the taxpayer reaches the age of 70½. However, a taxpayer may continue to deduct payments to a spouse's IRA until the year in which the spouse reaches the age of 70½.

Full, Partial, or No Deduction

As you studied earlier in Module II, Lesson 9, the deduction a taxpayer can take for contributions to an IRA depends on:

1) Whether or not the taxpayer is covered by a retirement plan set up by his or her employer, and if so,

2) How much adjusted gross income (AGI) the taxpayer has.

Full deduction. A taxpayer who is not covered by an employer retirement plan can take a full IRA deduction of up to $2,000 or 100% of compensation, whichever is less.

Partial or no deduction. A taxpayer who is covered by an employer-maintained retirement plan may be entitled to only a partial deduction or no deduction at all, depending on his or her adjusted gross income and filing status. A taxpayer's allowable IRA deduction begins to phase out at certain AGI levels. These levels were shown in a chart earlier in Module II, Lesson 9.

Because the average taxpayer that you help will not have an AGI greater than the amounts shown in the chart, you will not be expected to know the phaseout formula. If you do help a taxpayer with an AGI in excess of the levels, refer the taxpayer to Publication 590 or to a professional preparer.

Married couples. If they file a joint return and neither spouse is covered by a plan at work, each spouse may be entitled to the full deduction of up to $2,000, or 100% of compensation, whichever is less. If one spouse is not covered by a plan but the other spouse is, then the couple's IRA deduction may be reduced or eliminated depending on their combined AGI.

✶ However, if both spouses file separate returns ***and*** the spouse not covered by a plan does not live with his or her spouse for any part of the tax year, he or she is considered as not covered by a plan and is entitled to the full IRA deduction. For additional information, see Publication 17.

How Much Can Be Deducted for an IRA

The following chart will help you see how much taxpayers can deduct each year for IRAs. This chart is for people who are not covered by a retirement plan at work or for those who are covered, but who do not have an AGI above the phaseout levels given in Module II, Lesson 9.

Facts	Filing Status	Subtract the Lowest of:
Employed taxpayer has IRA Joint return, both taxpayers employed and have IRAs: Figure each taxpayer's IRA deduction separately and combine them to find the amount to deduct (no more than $2,000 for each).	Any	• Contributions to IRA; • Compensation; or • $2,000
Employed taxpayer has IRA and sets up IRA for unemployed spouse or for spouse with less than $250 of earned income	Married filing jointly	• Contributions to both IRAs; • Employed taxpayer's compensation; or • $2,250 (no more than $2,000 for either IRA)
Employed taxpayer without IRA sets up IRA for unemployed spouse or for spouse with less than $250 of earned income	Married filing jointly	• Contributions to IRA; • Employed taxpayer's compensation; or • $2,000

If a person has more than one IRA, the IRAs must be combined and treated as one when figuring the amount that can be contributed and the amount that can be deducted. The worksheet in the instructions for Form 1040 can be used to figure the amount of the IRA deduction.

Nondeductible contributions. As you read earlier in Module II, Lesson 9, a taxpayer can make nondeductible contributions to an IRA, even though he or she may have little or no deductible contributions because of the phaseout rules. Earnings on these contributions are not taxed until they are distributed to the taxpayer. The maximum amount allowable is limited to the lesser of $2,000 or 100% of the total compensation received, less the amount of the allowable IRA deduction.

To be able to deduct an IRA contribution from total income, the taxpayer must establish the IRA and make the contribution before the federal income tax return is due for the year. Contributions can be deducted even if they are made after the return is filed. They must be designated for the tax year and made by the date the return is due, which is usually April 15th. If a deduction is claimed for an intended contribution that is not made, the taxpayer must file an amended return to eliminate the IRA deduction.

Where To Deduct an IRA Contribution

If the taxpayer files Form 1040 as a single person, head of household, or as married filing separately, enter his or her deductible IRA contribution on line 24. If a joint return is filed and both spouses have IRAs, enter the allowable amount that one spouse contributed to his or her IRA on line 24. Enter the other spouse's deductible contribution on line 25.

Exercise 1

Bill and Kathy Custer are both employed, and each earned $15,000 in 1989. In July 1989, Bill contributed $1,200 for his 1989 IRA. In February 1990 he contributed $800 for his 1989 IRA. Kathy contributed $400 to her IRA for 1989. How much may Bill enter on Form 1040, line 24, of their joint return? How much can Kathy enter on line 25 of their return?

Answer

Exercise 2

Mary Walker retired two years ago at age 55. She received an $8,000 taxable pension and $750 for babysitting during the past year. How much could Miss Walker contribute to an IRA and enter on Form 1040, line 24?

Answer

Penalty for Early Withdrawal of Savings

A depositor may freely withdraw funds from an ordinary savings account. With time deposits, however, such as the popular short-term certificates, the depositor is charged a penalty if funds are withdrawn before maturity. The bank reports this penalty on the Form 1099-INT it uses to report interest it paid the depositor. The penalty is identified on the form as the amount of forfeiture.

Reporting Early Withdrawal Penalty

In the *Income* section of Form 1040, and on Schedule B if required, the taxpayer must include the total amount of interest paid or credited. The penalty can be taken as an adjustment on Form 1040, line 28. If an early withdrawal penalty was charged on more than one account, enter the total. The entire penalty may be deducted, even if it exceeds the interest income and whether or not the taxpayer itemizes deductions.

Exercise 3

Arlene Fairfield has given you her Forms 1099-INT totaling more than $400 in interest income. She planned to file Form 1040A because she could not itemize or claim any of the tax credits that are available only on Form 1040.

You have noticed the early withdrawal penalty on a few of the Forms 1099–INT.

a. What advice would you give Miss Fairfield?

Answer

b. Is there a limit on how much a taxpayer may deduct for the early withdrawal penalty?

Answer

Alimony Paid

Anyone who pays alimony can claim the total paid during the year as an adjustment to income. The alimony is fully taxable to the person receiving it.

Child support payments are not alimony and are not deductible.

The amount of alimony that is deductible depends on when the decree of divorce or separate maintenance was executed. Different rules apply to agreements made after 1984. If you need to know how these rules apply, see Publication 504, *Tax Information for Divorced or Separated Individuals.*

Note: There is also a requirement for an individual who is deducting alimony payments to provide the recipient's last name and social security number. This is entered in the designated spaces on line 29 of the payer's Form 1040.

Publications 17 and 504 contain more information on the alimony deduction.

Exercise 4

Nan Troup was divorced a few years ago and her decree required her to make alimony payments to her former husband. She is supposed to pay $200 on the 15th of each month. She was late making her December payment in 1989, so she included it with her January payment in 1990. How much will you enter on Form 1040, line 29, for Mrs. Troup?

Answer

Exercise 5

Seth Lewis was granted a divorce that required him to make monthly payments of $100 for alimony and $400 for child support. He made every payment in full and on time this past year. How much may he deduct on Form 1040, line 29?

Answer

Other Adjustments

Keogh Plan

A Keogh plan is similar to an IRA except that it is for self-employed taxpayers and larger amounts may be contributed. Publication 560, *Self-Employed Retirement Plans,* gives information about Keogh plans.

Health Insurance Deduction for Self-Employed

Self-employed persons may be able to deduct 25% of the health insurance payments they made for themselves, their spouses and their dependents during 1989 on line 26, Form 1040. The deduction is limited to the taxpayer's earned income from his or her trade or business. A worksheet is included in the Form 1040 instructions for these taxpayers to use to figure their allowable deduction.

Jury duty pay turned to employer

*

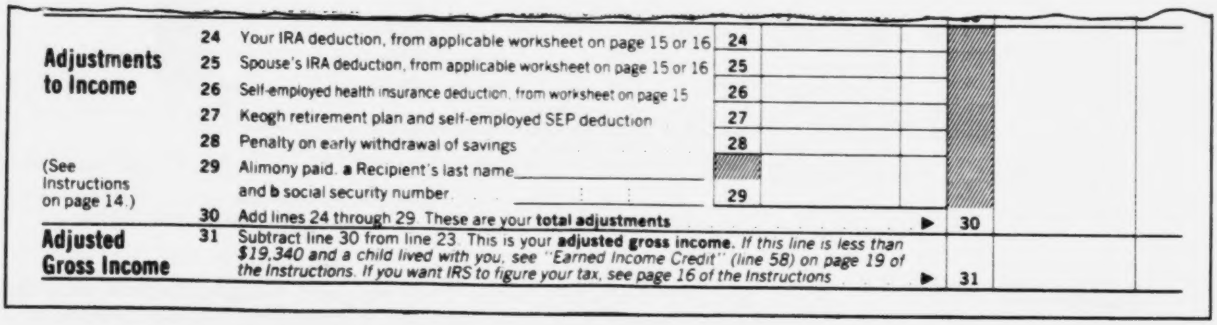
A taxpayer who is required to turn over to his or her employer any part of his or her pay for jury duty, in exchange for payment by the employer of compensation while the taxpayer serves as juror, may deduct the amount turned over to the employer as an adjustment to income. The deductible amount should be included in the total entered on line 30 of Form 1040. In the space to the left of line 30, the taxpayer should write "jury pay", and the amount deducted. For additional information, see Publication 17.

Note: As you read earlier in Lesson 3 of this module, jury duty pay received by taxpayers is includible as *other income* on line 22, Form 1040.

Total Adjustments

Add all adjustments and enter the total on Form 1040, line 30. There are other adjustments that are entered directly on line 30. These adjustments are beyond the scope of the volunteer program.

Exhibit 2



Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
	26	Self-employed health insurance deduction, from worksheet on page 15	26	
	27	Keogh retirement plan and self-employed SEP deduction	27	
	28	Penalty on early withdrawal of savings	28	
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name ____________ and **b** social security number ____________	29	
	30	Add lines 24 through 29. These are your **total adjustments** ▶		30
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶		31

Adjusted Gross Income (AGI)

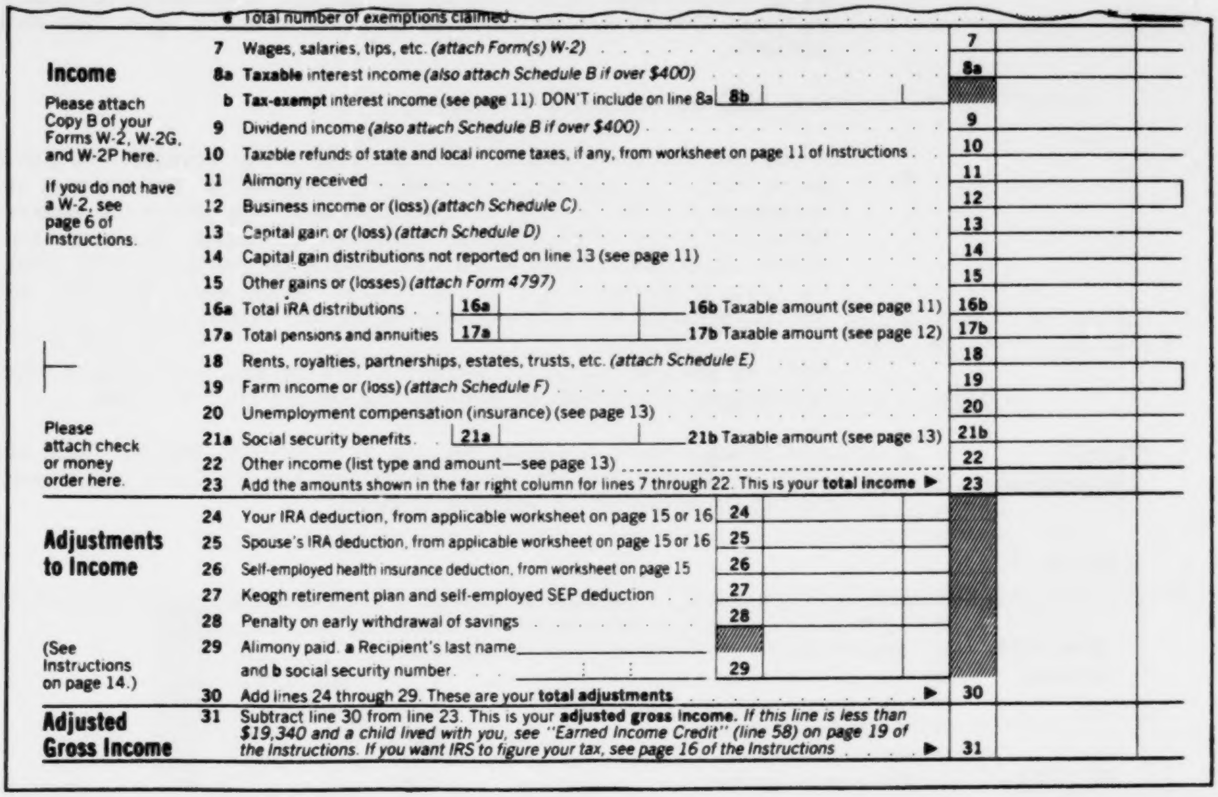
Subtract the total adjustments on Form 1040, line 30, from the total income, line 23, to find adjusted gross income, line 31. Adjusted gross income, known as AGI, is an important term of reference in regard to medical deductions, certain miscellaneous deductions, earned income credit, and certain other tax items. If there are no adjustments to income, adjusted gross income is the same as total income. When you complete a return, always make an entry on Form 1040, line 31, for adjusted gross income and also on line 32.

If the taxpayer's income, as reported on line 31, is less than $19,340, he or she may be eligible for the earned income credit (EIC). See Module II, Lesson 11, for the EIC requirements.

Exercise 6

William and Kay Baxter want help with their return. William is retired and receives a federal pension of $8,200, now fully taxable. Kay is still working and earned $8,500 in wages in 1989. Kay contributed $1,200 for 1989 to her own IRA. They cashed in a certificate of deposit and had an early withdrawal penalty of $143. Their taxable interest income for 1989 was $381. Prepare the Baxters' joint Form 1040 (Exhibit 3) through line 31.

Exhibit 3

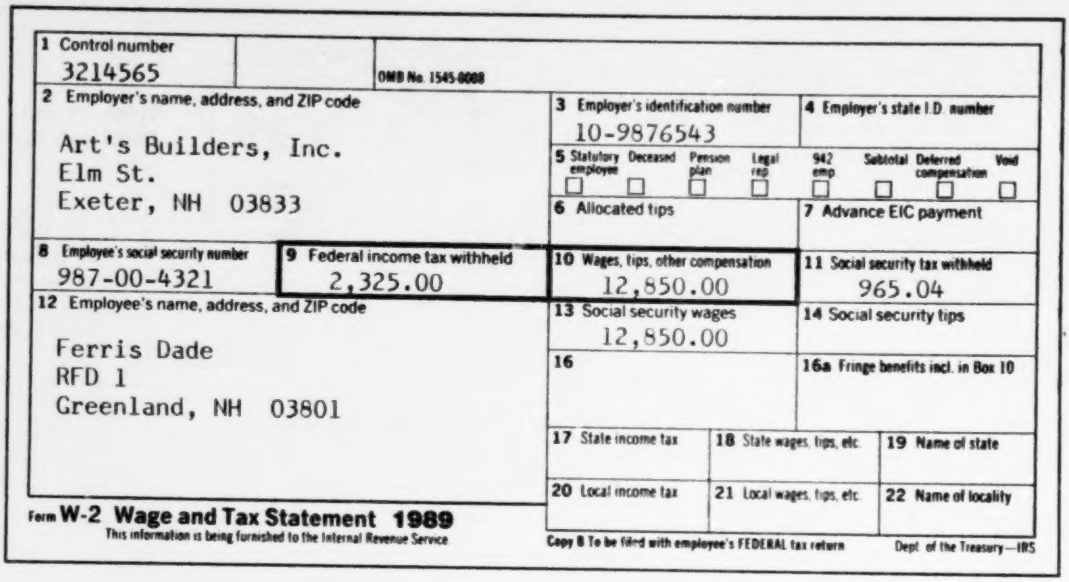


		Total number of exemptions claimed	
Income	7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7
Please attach Copy B of your Forms W-2, W-2G, and W-2P here.	8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a
	b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b	
	9	Dividend income *(also attach Schedule B if over $400)*	9
	10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10
If you do not have a W-2, see page 6 of Instructions.	11	Alimony received	11
	12	Business income or (loss) *(attach Schedule C)*	12
	13	Capital gain or (loss) *(attach Schedule D)*	13
	14	Capital gain distributions not reported on line 13 (see page 11)	14
	15	Other gains or (losses) *(attach Form 4797)*	15
	16a	Total IRA distributions 16a 16b Taxable amount (see page 11)	16b
	17a	Total pensions and annuities 17a 17b Taxable amount (see page 12)	17b
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18
	19	Farm income or (loss) *(attach Schedule F)*	19
	20	Unemployment compensation (insurance) (see page 13)	20
Please attach check or money order here.	21a	Social security benefits 21a 21b Taxable amount (see page 13)	21b
	22	Other income (list type and amount—see page 13)	22
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23
Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16 24	
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16 25	
	26	Self-employed health insurance deduction, from worksheet on page 15 26	
	27	Keogh retirement plan and self-employed SEP deduction 27	
	28	Penalty on early withdrawal of savings 28	
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name and **b** social security number 29	
	30	Add lines 24 through 29. These are your **total adjustments** ▶	30
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31

Exercise 7

Ferris and Ann Dade both work. They received dividend income from two investments. Their Forms W-2 (Exhibits 4 and 5) and Forms 1099-DIV (Exhibits 6 and 7) are shown. Ferris contributed $1,500 to his IRA and Ann put $1,200 into hers (both for 1989). Prepare their joint Form 1040 (Exhibit 8) through line 31.

Exhibit 4



1 Control number 3214565

OMB No. 1545-0008

2 Employer's name, address, and ZIP code

Art's Builders, Inc.
Elm St.
Exeter, NH 03833

3 Employer's identification number 10-9876543

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number 987-00-4321

9 Federal income tax withheld 2,325.00

10 Wages, tips, other compensation 12,850.00

11 Social security tax withheld 965.04

12 Employee's name, address, and ZIP code

Ferris Dade
RFD 1
Greenland, NH 03801

13 Social security wages 12,850.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

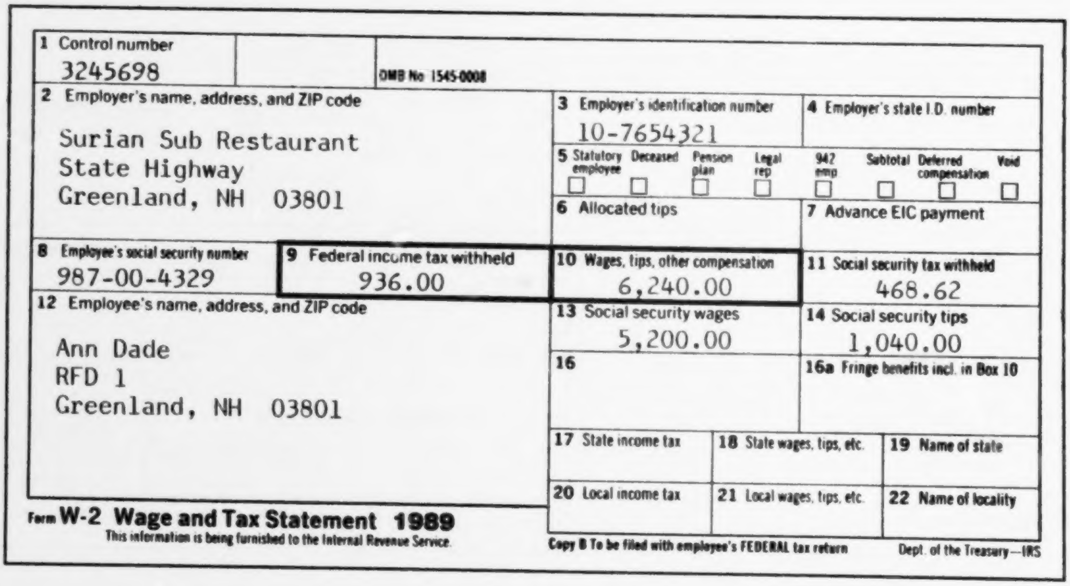
Form **W-2 Wage and Tax Statement 1989**

This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 5



1 Control number 3245698

OMB No. 1545-0008

2 Employer's name, address, and ZIP code

Surian Sub Restaurant
State Highway
Greenland, NH 03801

3 Employer's identification number 10-7654321

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number 987-00-4329

9 Federal income tax withheld 936.00

10 Wages, tips, other compensation 6,240.00

11 Social security tax withheld 468.62

12 Employee's name, address, and ZIP code

Ann Dade
RFD 1
Greenland, NH 03801

13 Social security wages 5,200.00

14 Social security tips 1,040.00

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement 1989**

This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 6

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Golf Equipment Research, Inc. Marion, Ohio 43302		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 250.00	OMB No. 1545-0110 1989 Statement for Recipients of	**Dividends and Distributions**
		1b Ordinary dividends $ 200.00		
PAYER'S Federal identification number 10-3691214	RECIPIENT'S identification number 987-00-4321	1c Capital gain distributions $ 50.00	1d Nontaxable distributions $	**Copy B** **For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Ferris Dade		1e Investment expenses $	2 Federal income tax withheld $	
Street address RFD 1		3 Foreign tax paid $	4 Foreign country or U.S. possession	
City, state, and ZIP code Greenland, NH 03801		**Liquidation Distributions**		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 7

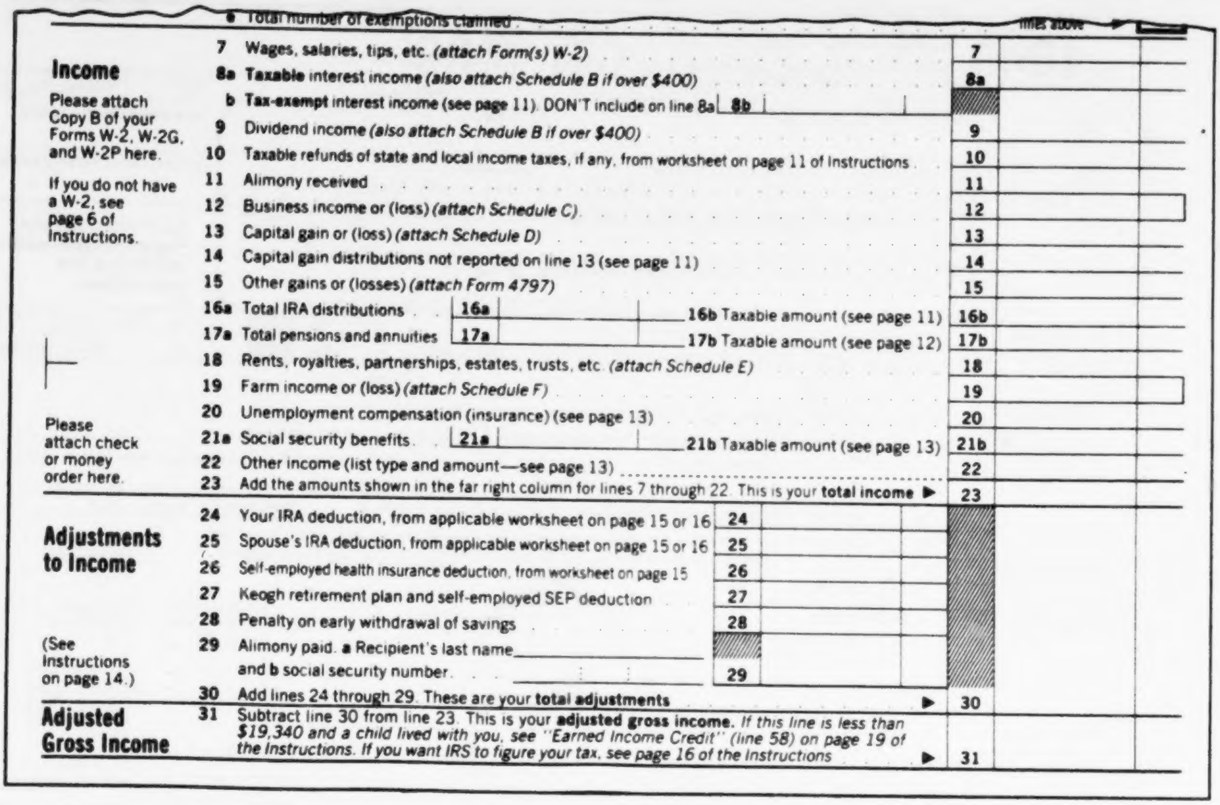
☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Foreign Mining Unlimited 123 Smith Street New York, NY 00000		1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 150.00	OMB No. 1545-0110 1989 Statement for Recipients of	**Dividends and Distributions**
		1b Ordinary dividends $ 150.00		
PAYER'S Federal identification number 10-2468101	RECIPIENT'S identification number 987-00-4321	1c Capital gain distributions $	1d Nontaxable distributions $	**Copy B** **For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) Ferris and Ann Dade		1e Investment expenses $	2 Federal income tax withheld $	
Street address RFD 1		3 Foreign tax paid $	4 Foreign country or U.S. possession	
City, state, and ZIP code Greenland, NH 03801		**Liquidation Distributions**		
Account number (optional)		5 Cash $	6 Noncash (Fair market value) $	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Exhibit 8



e Total number of exemptions claimed ... lines above ▶

Income	7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7
Please attach Copy B of your Forms W-2, W-2G, and W-2P here.	8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a
	b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b	
	9	Dividend income *(also attach Schedule B if over $400)*	9
	10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10
If you do not have a W-2, see page 6 of Instructions.	11	Alimony received	11
	12	Business income or (loss) *(attach Schedule C)*	12
	13	Capital gain or (loss) *(attach Schedule D)*	13
	14	Capital gain distributions not reported on line 13 (see page 11)	14
	15	Other gains or (losses) *(attach Form 4797)*	15
	16a	Total IRA distributions 16a — 16b Taxable amount (see page 11)	16b
	17a	Total pensions and annuities 17a — 17b Taxable amount (see page 12)	17b
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18
	19	Farm income or (loss) *(attach Schedule F)*	19
	20	Unemployment compensation (insurance) (see page 13)	20
Please attach check or money order here.	21a	Social security benefits 21a — 21b Taxable amount (see page 13)	21b
	22	Other income (list type and amount—see page 13)	22
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23
Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25
	26	Self-employed health insurance deduction, from worksheet on page 15	26
	27	Keogh retirement plan and self-employed SEP deduction	27
	28	Penalty on early withdrawal of savings	28
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name ______ and **b** social security number ______	29
	30	Add lines 24 through 29. These are your **total adjustments** ▶	30
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31

Exercise 8

Robert Cameron earned $10,950 in 1989. He cashed in a certificate of deposit while unemployed and was penalized $140 for early withdrawal. His gross interest income was $375. Robert is divorced and paid alimony of $100 a month. His ex-wife's name is Betty Cameron and her social security number is 987–00–6543. Robert opened an IRA and made monthly deposits of $100 from September through December. Fill in Robert's Form 1040, *Adjustments to Income* section (Exhibit 9).

Exhibit 9

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 1989

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial Last name

If joint return, spouse's first name and initial Last name

Home address (number and street). (If P.O. box, see page 7.) Apt. no.

City, town, or post office, state and ZIP code. (If foreign address, see page 7.)

Your social security number

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign ▶ Do you want $1 to go to this fund? . . . . ☐ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? . ☐ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ________ ________
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2 . .

b ☐ **Spouse** . . . .

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

PROOF COPY

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed . . . .

Add numbers entered on lines above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b		
9	Dividend income *(also attach Schedule B if over $400)*	9	
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions . . 16a ____ 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a ____ 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits. 21a ____ 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13) ________	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

Adjustments to Income

(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name ________ and **b** social security number. . . ________	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	

Summary

Three adjustments to income are appropriate on returns that volunteers help prepare: contributions to an IRA, penalty for withdrawing savings early, and alimony paid. Contributions to an IRA is the only item in the *Adjustments to Income* section of Form 1040 that can also be claimed on Form 1040A. Refer taxpayers to IRS publications or to professional preparers if you think they may be eligible to claim any of the other adjustments to income on Form 1040.

Even if there are no adjustments, determine adjusted gross income on each return. You will need it to figure the correct tax.

Answers to Exercises

1. $2,000 on line 24; $400 on line 25.
2. $750.
3. a. Miss Fairfield should file Form 1040 to take advantage of the adjustment to income allowed for early withdrawal penalties.
   b. There is no limit.
4. $2,200.
5. $1,200. The child support payments are not deductible.
6. See filled-in Exhibit 3.
7. See filled-in Exhibit 8.
8. See filled-in Exhibit 9.

Exhibit 3, filled-in

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 | OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: William	Last name: Baxter	**Your social security number**: 580 00 0000
If joint return, spouse's first name and initial: Kay	Last name: Baxter	**Spouse's social security number**: 581 00 0000
Home address (number and street). (If P.O. box, see page 7.): 117 Columbia Ave.	Apt. no.	**For Privacy Act and Paperwork Reduction Act Notice, see Instructions.**
City, town, or post office, state and ZIP code. (If foreign address, see page 7.): America, VA 22000		

Presidential Election Campaign

Do you want $1 to go to this fund?	☒ Yes	☐ No	**Note:** *Checking "Yes" will not change your tax or reduce your refund.*
If joint return, does your spouse want $1 to go to this fund?	☒ Yes	☐ No	

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☒ **Spouse**

No. of boxes checked on 6a and 6b: 2

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

PROOF COPY

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 9) ______

No. of other dependents on 6c ______

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ 2

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	8,500	00
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	381	00
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b			
9	Dividend income *(also attach Schedule B if over $400)*	9		
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10		
11	Alimony received	11		
12	Business income or (loss) *(attach Schedule C)*	12		
13	Capital gain or (loss) *(attach Schedule D)*	13		
14	Capital gain distributions not reported on line 13 (see page 11)	14		
15	Other gains or (losses) *(attach Form 4797)*	15		
16a	Total IRA distributions 16a ______ 16b Taxable amount (see page 11)	16b		
17a	Total pensions and annuities 17a 8,200 00 17b Taxable amount (see page 12)	17b	8,200	00
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18		
19	Farm income or (loss) *(attach Schedule F)*	19		
20	Unemployment compensation (insurance) (see page 13)	20		
21a	Social security benefits 21a ______ 21b Taxable amount (see page 13)	21b		
22	Other income (list type and amount—see page 13)	22		
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	17,081	00

Adjustments to Income

(See Instructions on page 14.)

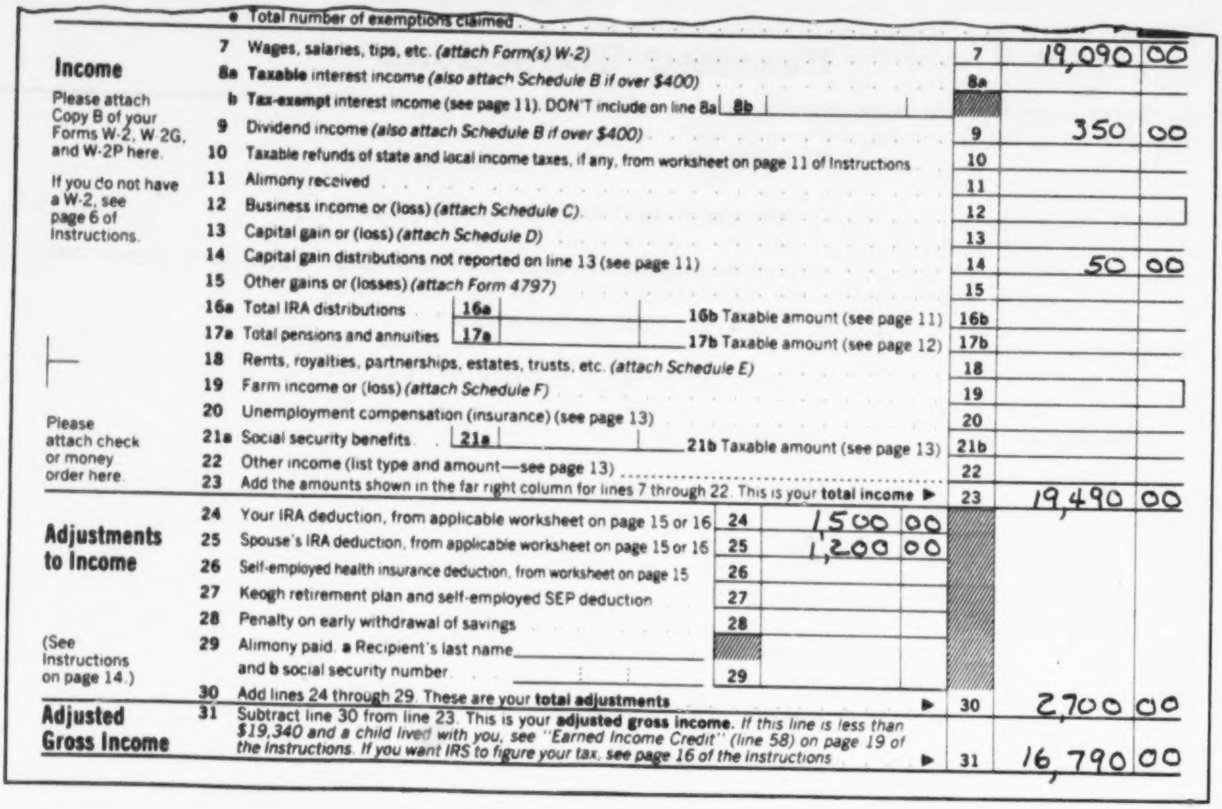
24	Your IRA deduction, from applicable worksheet on page 15 or 16	24		
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	1,200	00
26	Self-employed health insurance deduction, from worksheet on page 15	26		
27	Keogh retirement plan and self-employed SEP deduction	27		
28	Penalty on early withdrawal of savings	28	143	00
29	Alimony paid. **a** Recipient's last name ______ and **b** social security number ______	29		

30	Add lines 24 through 29. These are your **total adjustments** ▶	30	1,343	00

Adjusted Gross Income

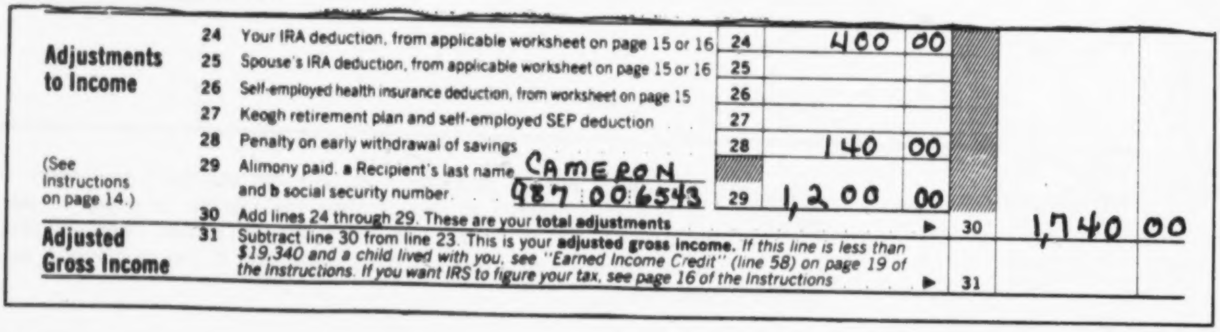
31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	15,738	00

Exhibit 8, filled-in



	e	Total number of exemptions claimed						
Income Please attach Copy B of your Forms W-2, W-2G, and W-2P here. If you do not have a W-2, see page 6 of Instructions.	7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*				7	19,090	00
	8a	**Taxable** interest income *(also attach Schedule B if over $400)*				8a		
	b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a	8b			▨		
	9	Dividend income *(also attach Schedule B if over $400)*				9	350	00
	10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions				10		
	11	Alimony received				11		
	12	Business income or (loss) *(attach Schedule C)*				12		
	13	Capital gain or (loss) *(attach Schedule D)*				13		
	14	Capital gain distributions not reported on line 13 (see page 11)				14	50	00
	15	Other gains or (losses) *(attach Form 4797)*				15		
	16a	Total IRA distributions	16a		**16b** Taxable amount (see page 11)	16b		
	17a	Total pensions and annuities	17a		**17b** Taxable amount (see page 12)	17b		
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*				18		
	19	Farm income or (loss) *(attach Schedule F)*				19		
	20	Unemployment compensation (insurance) (see page 13)				20		
Please attach check or money order here.	21a	Social security benefits	21a		**21b** Taxable amount (see page 13)	21b		
	22	Other income (list type and amount—see page 13)				22		
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶				23	19,490	00
Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	1,500	00	▨		
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	1,200	00	▨		
	26	Self-employed health insurance deduction, from worksheet on page 15	26			▨		
	27	Keogh retirement plan and self-employed SEP deduction	27			▨		
	28	Penalty on early withdrawal of savings	28			▨		
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name and **b** social security number	29			▨		
	30	Add lines 24 through 29. These are your **total adjustments** ▶				30	2,700	00
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶				31	16,790	00

Exhibit 9, filled-in



Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	400	00	▨		
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25			▨		
	26	Self-employed health insurance deduction, from worksheet on page 15	26			▨		
	27	Keogh retirement plan and self-employed SEP deduction	27			▨		
	28	Penalty on early withdrawal of savings	28	140	00	▨		
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name CAMERON and **b** social security number 987 00 6543	29	1,200	00	▨		
	30	Add lines 24 through 29. These are your **total adjustments** ▶				30	1,740	00
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶				31		

Module III

Lesson 5

Itemized Deductions

Objectives

At the end of this lesson you will be able to:

1. Determine who may itemize deductions on Schedule A (Form 1040).
2. Define the types of deductions.
3. Complete Schedule A (Form 1040).

Contents

Introduction

Medical and Dental Expenses

Taxes

Interest

Contributions

Casualty and Theft Losses

Moving Expenses

Miscellaneous Deductions

Total Itemized Deductions

Summary

Answers to Exercises

Introduction

Taxpayers will either itemize deductions or use the standard deduction (explained in the next lesson) to reduce their tax liability. In most cases, the taxpayer will use the larger of the two. However, a married taxpayer filing a separate return cannot claim the standard deduction if the taxpayer's spouse itemizes deductions.

If, for state tax purposes, a taxpayer itemizes even though his or her itemized deductions are less than the amount of his or her standard deduction, write "IE" (itemized elected) on the dotted line to the left of line 34.

There are other taxpayers who must itemize, such as a nonresident alien, but these are cases that should be referred to a professional tax preparer.

Itemized deductions are items specifically allowed by law: medical and dental expenses, taxes paid, interest paid, charitable contributions to qualifying organizations, casualty and theft losses incurred, moving expenses, and specific miscellaneous expenses.

Medical and Dental Expenses

Lines 1 through 4 of Schedule A are used to deduct medical and dental expenses. Include only expenses paid for:

1. The taxpayer and spouse,
2. Dependents listed on the return, and
3. Others who could have been claimed as dependents except that they had gross income of $2,000 or more or filed a joint return.

If either parent claims a child as a dependent under the rules for divorced or separated parents, each parent may deduct the medical expenses he or she pays for the child.

Example

John Bacan provided more than half of his mother's support but cannot list her as a dependent because she received $2,000 in wages during 1989. If part of the support John provided was to pay his mother's medical bills, he can include that part in his medical and dental expense deduction.

Exhibit 1

SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. 07

Name(s) shown on Form 1040 | PROOF COPY | Your social security number

Medical and Dental Expenses **(Do not include expenses reimbursed or paid by others.)** (See Instructions on page 23.)	1a	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc.	1a	
	b	Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶	1b	
	2	Add the amounts on lines 1a and 1b. Enter the total here	2	
	3	Multiply the amount on Form 1040, line 32, by 7.5% (.075)	3	
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ▶		4
Taxes You Paid (See Instructions on page 23.)	5	State and local income taxes	5	
	6	Real estate taxes	6	
	7	Other taxes. (List—include personal property taxes.) ▶	7	
	8	Add the amounts on lines 5 through 7. Enter the total here. **Total** taxes ▶		8
Interest You Paid (See Instructions on page 24.)	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a	
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b	
	10	Deductible points. (See Instructions for special rules.)	10	
	11	Deductible investment interest. (See page 24.)	11	
	12a	Personal interest you paid. (See page 24.) 12a		
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b	
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶		13
Gifts to Charity (See Instructions on page 25.)	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14	
	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15	
	16	Carryover from prior year	16	
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶		17
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 25 of the Instructions.) ▶		18
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 26 of the Instructions.) ▶		19
Job Expenses and Most Other Miscellaneous Deductions (See page 26 for expenses to deduct here.)	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20	
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶	21	
	22	Add the amounts on lines 20 and 21. Enter the total.	22	
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here	23	
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶		24
Other Miscellaneous Deductions	25	Other (from list on page 26 of Instructions). List type and amount ▶		25
Total Itemized Deductions	26	Add the amounts on lines 4, 8, 13, 17, 18, 19, 24, and 25. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 17 of the Instructions ▶		26

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule A (Form 1040) 1989**

Deductible Expenses

Deductible medical expenses are those the taxpayer paid and for which there was no reimbursement from insurance or other sources. A detailed list of allowable medical expenses is shown in Publication 17. These expenses include such items as prescribed drugs; insulin; medical, dental, and nursing care; medical and hospital insurance premiums; special items such as eyeglasses, crutches, or hearing aids; transportation for medical care; and certain lodging. Transportation is limited to actual costs or 9 cents a mile, plus tolls and parking fees.

Certain capital expenditures incurred for a personal residence to make it suitable to the needs of a handicapped individual are deductible in full (subject to the 7.5% limit discussed later). Other capital improvements to a home may be partly deductible if the main reason for the improvement is for medical care. Refer the taxpayer to Publication 502, *Medical and Dental Expenses,* or to a professional tax preparer.

Figuring the Medical and Dental Expense Deduction

To be deductible, medical and dental expenses must exceed 7.5% of a taxpayer's adjusted gross income.

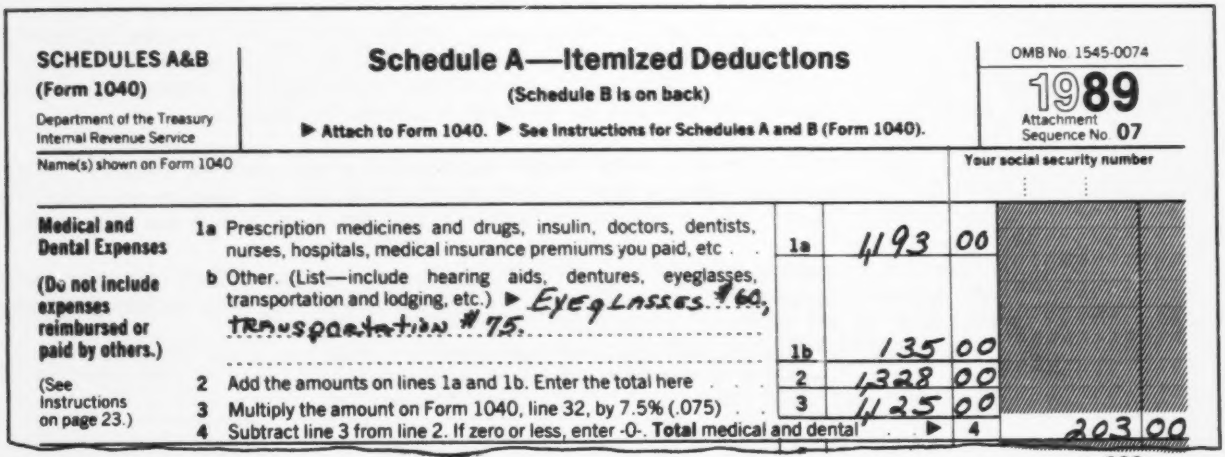
Example

Virginia Walters had $15,000 in adjusted gross income. Her unreimbursed doctors' and dentists' bills were $600 for herself and her dependent son, Ron. She paid $468 in insurance premiums; $125 for medicines her doctor prescribed; and $20 for nonprescription medicines, such as cold capsules, aspirin, and vitamins. Ron's eyeglasses cost Virginia $60. Virginia and Ron made seven trips by car to the doctor's office, which was a 30-mile round trip each time, plus $5 for parking. Ron went to the dentist by taxi three times, and each round trip cost $7. For her Schedule A, Virginia figures her transportation costs for medical care as follows:

30 miles × 7 times = 210 miles by car	
210 miles × 9 cents a mile =	$18.90
$5 parking fee × 7 times =	35.00
$7 taxi trip × 3 times =	21.00
Medical transportation	$74.90
Rounded off	**$75.00**

The *Medical and Dental Expenses* section from Virginia's Schedule A is shown as Exhibit 2.

Exhibit 2



SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions
(Schedule B is on back)
▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074
1989
Attachment Sequence No. 07

Name(s) shown on Form 1040

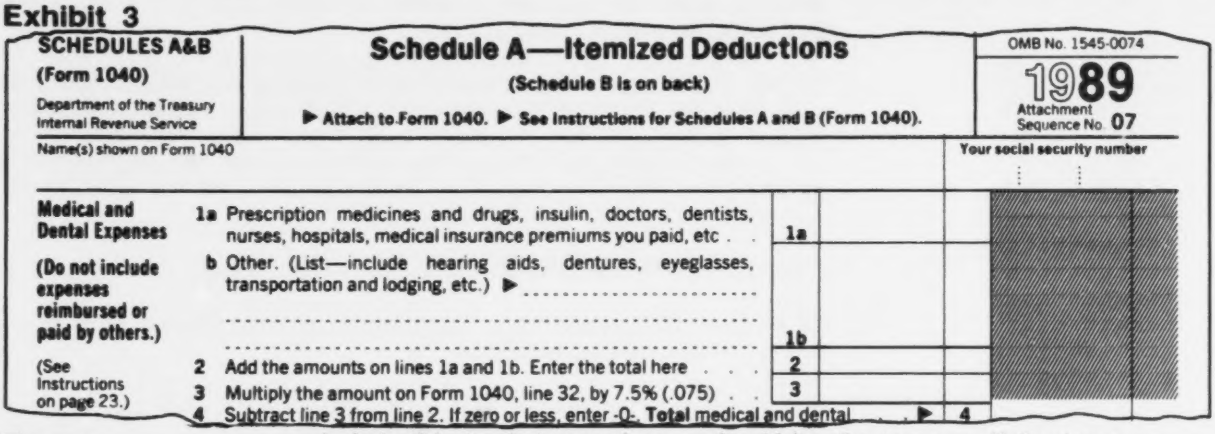
Your social security number

Medical and Dental Expenses	1a	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc.	1a	1,193	00	
(Do not include expenses reimbursed or paid by others.)	b	Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶ EYEGLASSES #60, TRANSPORTATION #75.	1b	135	00	
(See Instructions on page 23.)	2	Add the amounts on lines 1a and 1b. Enter the total here	2	1,328	00	
	3	Multiply the amount on Form 1040, line 32, by 7.5% (.075)	3	1,125	00	
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ▶	4			203 00

Exercise 1

Ed and Diane Clay paid $400 in doctor's bills, $1,000 to the orthodontist for their daughter's braces, $500 in medical insurance premiums, $120 for prescription medicines, and $150 for nonprescription medicines. They also paid a $125 hospital bill for which they were reimbursed by the insurance company. The Clays' AGI (line 31, Form 1040) is $20,000. Prepare the medical and dental expenses section of Schedule A for the Clay family (Exhibit 3).

Exhibit 3



SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions
(Schedule B is on back)
▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074
1989
Attachment
Sequence No. 07

Name(s) shown on Form 1040

Your social security number

Medical and Dental Expenses	**1a** Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc . .	1a		
(Do not include expenses reimbursed or paid by others.)	**b** Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶	1b		
(See Instructions on page 23.)	**2** Add the amounts on lines 1a and 1b. Enter the total here . . .	2		
	3 Multiply the amount on Form 1040, line 32, by 7.5% (.075) . .	3		
	4 Subtract line 3 from line 2. If zero or less, enter -0-. **Total medical and dental** . . . ▶			4

Taxes

A deductible tax is imposed on, and paid by, the taxpayer. If the taxpayer pays tax for someone else, such as a parent or a friend, neither of them can deduct that tax.

Taxes are deducted on lines 5 through 8 of Schedule A. The three types described here can be deducted.

State, Local, and Foreign Income Taxes

A taxpayer may deduct income taxes paid to a state or local government or to a foreign government or any of its subdivisions. These taxes include withheld tax, estimated payments, and tax paid for an earlier year.

Example

In 1989, Mark James had $800 withheld from his wages for his 1989 state income tax. In addition, he paid $400 in estimated tax to the state. In April 1989, he paid a balance due of $300 when he filed his 1988 state income tax return. The total state income tax Mark paid in 1989 is $1,500. This is the amount deductible on his 1989 Schedule A.

Real Estate Taxes

Deductible real estate taxes are levied for the general public welfare. They are state, local, or foreign taxes on real property, such as the taxpayer's house or land. Local benefit taxes (for example, assessments to pave a street or install a sewer) are generally not deductible, unless they are for maintenance or interest charges related to the benefits.

The taxpayer cannot deduct real estate tax paid with the monthly mortgage payment into an escrow account. The taxpayer may deduct only what the escrow agent (usually the bank or mortgage lender) paid the state or locality.

Members of the clergy and military personnel may deduct real estate taxes even if they receive a housing allowance that they may exclude from income.

Personal Property Tax

A deductible personal property tax is a state or local tax charged on the value of personal property. It is charged on a yearly basis, even if it is collected more or less often.

Example

Jane Morrison paid a registration fee for her personal car, based partly on its value and partly on its weight. She may deduct only the part based on its value.

Nondeductible Taxes

Many federal, state, and local governments taxes are not deductible. For example:

1. General sales tax,
2. Federal taxes—income tax, social security (FICA), railroad retirement tax, and excise taxes or customs duties,
3. Hunting licenses, dog licenses,
4. Water and sewer taxes,
5. Taxes paid for another person,
6. Taxes on alcoholic beverages, cigarettes, and tobacco,
7. State, local, or federal taxes on gasoline, diesel, and other motor fuels used in a nonbusiness vehicle, and
8. Utility taxes (telephone, gas, electricity, etc.).

Interest

Interest is the amount that is paid for borrowing money. Only the taxpayer who is legally liable for the debt can deduct interest in the tax year it is paid or accrued. There are four categories of interest expenses that may be deducted on Schedule A, lines 9a through 13:

1. Home mortgage interest,
2. Points,
3. Investment interest, and
4. Personal interest.

Home Mortgage Interest

The amount of mortgage interest that a taxpayer may deduct depends on the date he or she obtained the loan, the amount of the loan, and the use of the proceeds of the loan.

If a mortgage debt was incurred before October 14, 1987, and secured by a main or second home, the interest on that debt is fully deductible, regardless of the amount of the loan or the purpose for which the proceeds of the loan were used by the taxpayer.

Example

Shirley Marshall bought her home four years ago for $50,000. The balance of her mortgage is $40,000 in 1989. Shirley may continue to deduct all of the interest she pays on her mortgage and deduct this amount on Schedule A.

Interest Limit. If a mortgage debt was incurred after October 13, 1987, and secured by a main or second home, the interest is fully deductible if the loan does not exceed $1 million ($500,000 if married filing separately) and its proceeds were used to buy, build, or substantially improve that home. In addition to this interest, in general, a taxpayer can deduct all of the interest paid on any other loans secured by a main or second home, **other than to buy, build, or substantially improve his or her home,** as long as the total of these loans does not exceed $100,000 ($50,000 if married filing separately) and to the extent the total amount of the debt is not more than the secured home's fair market value minus any outstanding acquisition debt on the home. A taxpayer can take the deduction, regardless of the purpose for which the taxpayer used the proceeds of the loan. An example of this type of mortgage is a home equity loan a taxpayer uses to pay off credit card accounts, to buy a car, or pay tuition.

Example

Joe Brent bought his home in March 1989 for a purchase price of $70,000. He financed the home with a mortgage of $63,000. This is the only debt secured by the home. Joe may deduct all of the interest paid on the mortgage because of the amount of the debt does not exceed $1 million. He may deduct this amount directly on Schedule A.

If the taxpayer took out a mortgage loan on his or her home after October 13, 1987, for a purpose other than explained above, refer the taxpayer to Publication 936, *Limits on Home Mortgage Interest Deduction*, or to a professional tax preparer.

If mortgage payments were made to a financial institution, such as a bank or mortgage company, enter the amount of fully deductible interest paid on line 9a, Schedule A. If the payments were to an individual, enter the amount of fully deductible interest on line 9b and include the payee's name and address.

Points. The term "points" is often used to describe certain charges to a borrower. Points are also called loan origination fees, premium charges, or maximum loan charges. If the borrower paid these charges only for the use of money, they are interest.

Points paid to refinance a mortgage, regardless of how a taxpayer arranges to pay them, are not deductible in full in the year the taxpayer pays them unless they are paid in connection with the purchase or improvement of a home. This is true even if the new mortgage is secured by the taxpayer's main home. For more information see Publication 545, *Interest Expense.*

A taxpayer may deduct points in the year of payment only if the loan is used to buy or improve a main home and the loan is secured by that home. The number of points paid cannot exceed those generally charged in that area. Additional points paid are considered interest paid in advance and must be deducted over the life of the mortgage. Points are deducted on line 10, Schedule A.

Charges by the lender for specific services, such as appraisal fees, preparation costs, settlement fees, or notary fees, are not interest even though they may be called points. Points charged for service in obtaining a Veterans Administration loan are not deductible interest.

Points paid by the seller are not deductible as interest.

Clergy and military personnel. Members of the clergy and military personnel may deduct allowable mortgage interest even if the interest was paid from a nontaxable housing allowance.

Mortgage interest credit. If the taxpayer claims the mortgage interest credit on Form 8396, *Mortgage Interest Credit*, he or she must reduce the amount of mortgage interest claimed on Schedule A by the amount of the credit claimed. See the instructions for Schedule A and Form 8396.

Investment Interest

Investment interest includes interest paid or accrued on money borrowed to buy or carry property held for investment. For 1989, taxpayers are allowed an investment interest deduction of up to the amount of net investment income plus 20% of any excess, but not more than $10,000 ($5,000 if married filing a separate return).

Refer taxpayers with questions about investment interest to Publication 550, *Investment Income and Expenses,* or to a professional tax preparer.

Personal Interest

In general, personal interest is any interest expense other than fully deductible home mortgage interest, investment interest, or interest incurred in a trade or business. Personal interest includes interest paid for loans such as signature loans, car loans, credit card balances, and installment plan loans. For 1989, only 20% of personal interest paid is deductible on line 12, Schedule A.

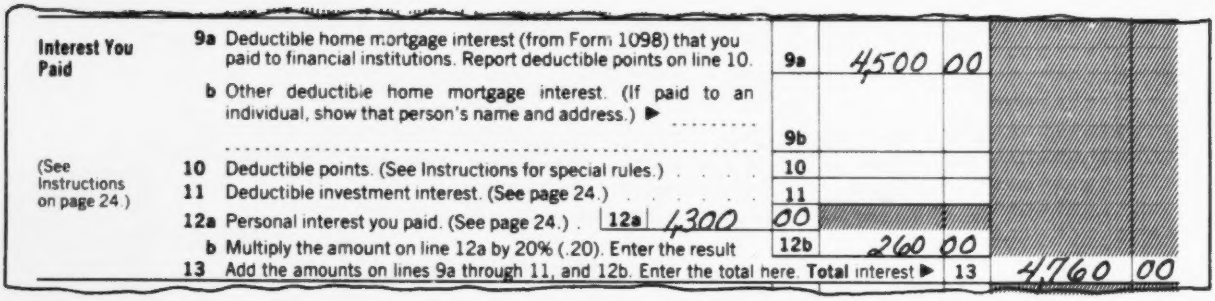
Example

Bill and Wanda Drew paid the following interest expense in 1989:

Home mortgage interest (purchased home in 1986 for $60,000; balance of mortgage $40,000; no other debts secured by home)	$4,500
Car loan	430
Credit cards	270
Signature bank loan	600

Their completed interest paid section of Schedule A is shown in Exhibit 4.

Exhibit 4



Interest You Paid	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a	4,500	00		
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b				
(See Instructions on page 24.)	10	Deductible points. (See Instructions for special rules.)	10				
	11	Deductible investment interest. (See page 24.)	11				
	12a	Personal interest you paid. (See page 24.) 12a 1,300 00					
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b	260	00		
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶	13			4,760	00

Nondeductible Interest

1. Credit investigation fees,
2. Points paid by the seller,
3. Loan fees (paid for services necessary to get a loan),
4. Interest relating to tax-exempt income,
5. Premium on a convertible bond, and
6. Interest on a debt the taxpayer is not legally liable to pay.

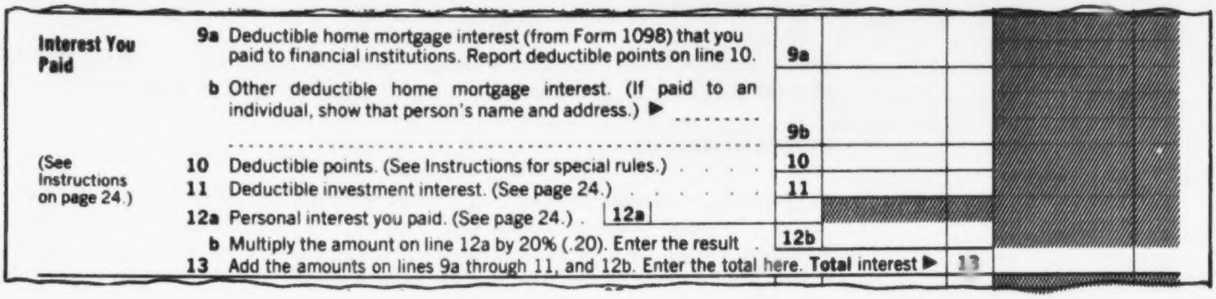
Example

Louise cosigns a loan made by the bank to Tom. Since they are jointly liable for the note, Louise may deduct 20% of the interest she paid on the loan in 1989, and Tom may deduct 20% of the interest he paid in 1989.

Exercise 2

Prepare the *Interest* section of Mike and Joan Black's Schedule A (Exhibit 5). During the year they paid the following interest: $1,990 on their home mortgage (all qualified), $500 in credit card interest, $250 on an installment plan purchase and $1,000 on a car loan. Round to nearest dollar.

Exhibit 5



Interest You Paid	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a			▨		
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b			▨		
(See Instructions on page 24.)	10	Deductible points. (See Instructions for special rules.)	10			▨		
	11	Deductible investment interest. (See page 24.)	11			▨		
	12a	Personal interest you paid. (See page 24.) . 12a		▨	▨	▨		
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b			▨		
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total interest** ▶			13			

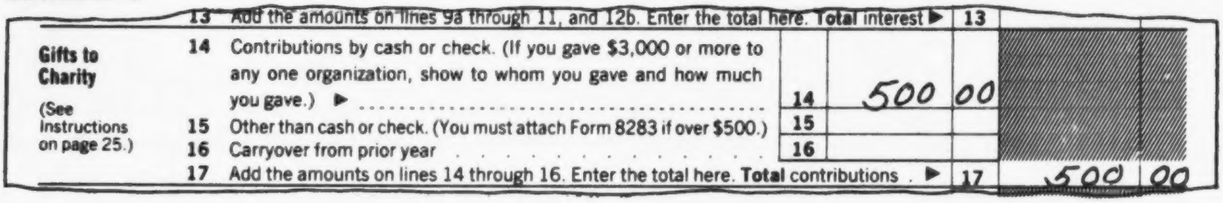
Contributions

A taxpayer may deduct contributions to organizations that are organized and operated exclusively for religious, charitable, educational, scientific, or literary purposes, organizations that work to prevent cruelty to children or animals, and organizations that foster national or international amateur sports competition if they do not provide athletic facilities or equipment. If the taxpayer itemizes, report contributions on lines 14 through 17 of Schedule A.

Example

Howard Mason gave $350 to his church and $150 to the United Way during the year. On his Schedule A, line 14, he includes the total of both contributions (Exhibit 6).

Exhibit 6



	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total interest** ▶			13			
Gifts to Charity	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14	500	00	▨		
(See Instructions on page 25.)	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15			▨		
	16	Carryover from prior year	16			▨		
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶			17		500	00

Deductible Contributions

To be deductible, a contribution must be made to an organization, not an individual. Qualifying organizations include:

1. Churches, synagogues, Salvation Army, Red Cross, CARE, United Way, Boy Scouts, Girl Scouts, World Wildlife Fund, etc.,
2. Fraternal orders (if gift will be used for the purposes listed above),
3. Nonprofit schools and hospitals,
4. Nonprofit medical research organizations,
5. Veterans' groups and certain cultural groups, and
6. Federal, state, and local governments (if the gifts are exclusively for public purposes).

Deductible items include:

1. Money gifts to qualified organizations,

2. Dues, fees, and assessments, above the value of the benefits received, paid to qualified organizations (not country clubs or other social organizations),
3. Fair market value of used clothing, furniture, or other items given to charity,
4. Cost and upkeep of uniforms that have no general use but must be worn while performing donated services,
5. Transportation expenses that were not repaid and that relate directly to services the taxpayer gave a qualified organization—these include either out-of-pocket expenses, such as bus fare, gas, and oil; or 12 cents a mile. In either case, parking fees and tolls are deductible,
6. Out-of-pocket expenses that were not repaid, including reasonable amounts paid for necessary meals (generally limited to 80% of actual expenses) and lodging while the taxpayer was away from home overnight donating services to a qualified organization providing there was no significant element of personal pleasure or vacation involved, and
7. The part of a contribution above the fair market value for items such as merchandise and tickets to charity balls or sporting events.

Example

Marcia Teak gave $75 to the City Museum. In return, she received an art book that retails for $40. On Marcia's Schedule A she would show $35 as her deductible contribution to the museum.

Nondeductible Contributions

Contributions to nonqualifying organizations are not deductible. Such organizations include:

1. Business organizations, such as the chamber of commerce,
2. Civic leagues,
3. Communist organizations,
4. Social clubs, and
5. Foreign organizations—however, the taxpayer may deduct contributions to a U.S. organization that transfers funds to a charitable foreign organization if the U.S. organization controls the use of the funds or if the foreign organization is only an administrative arm of the U.S. organization.

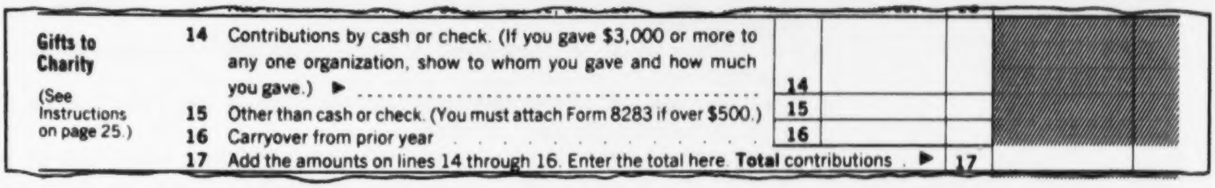
Nondeductible items include:

1. Cost of raffle, bingo, or lottery tickets,
2. Tuition to a private school,
3. Value of a person's time or service,
4. Blood donated to a blood bank or the Red Cross,
5. Car depreciation, insurance, general repairs, or maintenance,
6. Direct contributions to individuals,
7. Sickness or burial expenses for members of a fraternal society, and
8. The part of a contribution that personally benefits the taxpayer, if the taxpayer pays the organization more than the fair market value for merchandise or tickets to events such as charity balls or sporting events.

Exercise 3

Martha Green contributed the following amounts during the year: $400 to St. Martin's Church, $52 to the United Way, and $50 to a family whose house burned. Complete the *Gifts to Charity* section of Schedule A (Exhibit 7).

Exhibit 7



Gifts to Charity (See Instructions on page 25.)	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14			▨
	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15			▨
	16	Carryover from prior year	16			▨
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶			17	

Casualty and Theft Losses

A casualty loss results from a sudden, unexpected, or unusual event such as fire, storm, shipwreck, flood, earthquake, or automobile accident. Theft is the unlawful taking of money or property with the intent to deprive the owner of it. Theft does not include the mere disappearance of money or property.

Part of an unreimbursed casualty or theft loss may be deductible. The taxpayer must be able to prove that the casualty or theft occurred to property that he or she owned. The taxpayer must also be able to prove the amount of the loss.

A casualty or theft can result in gains to some property and losses to other property. Each loss must be reduced by $100. The gains and losses from all casualties and thefts are then netted. If a taxpayer has a net loss, it must exceed 10% of his or her adjusted gross income on line 31, Form 1040, to be deductible. If a taxpayer appears to have a loss that exceeds 10% of his or her adjusted gross income, you should refer the taxpayer to IRS Publication 547, *Nonbusiness Disasters, Casualties, and Thefts,* or suggest professional assistance.

Moving Expenses

Moving expenses can only be claimed as an itemized deduction on line 19, Schedule A. This is a business-related expense outside the scope of VITA or TCE. Refer taxpayers with this expense to Publication 521, *Moving Expenses,* or to a professional tax preparer.

Miscellaneous Deductions

Certain employee expenses, expenses of producing income, and other qualifying expenses are deducted as miscellaneous deductions on Schedule A.

Most miscellaneous itemized deductions are subject to a 2% limit. The amount deductible is the total of these miscellaneous deductions that is more than 2% of adjusted gross income. The 2% limit is applied after all other deduction limits are considered. A list of some deductible miscellaneous expenses follows. For a more complete list, see Publication 17 or Publication 529, *Miscellaneous Deductions.*

Deductions Subject to 2% Limit

1. Union dues and fees,
2. Professional society dues,
3. Uniforms not adaptable to general use,
4. Small tools and supplies,
5. Professional books, magazines, journals, etc.,
6. Employment-related educational expenses,
7. Expenses of looking for a new job,
8. Investment counsel fees,
9. Investment expenses,
10. Tax counsel and assistance,
11. Fees paid to IRA custodian, and

12. Safe deposit box rental for investment documents.

Deductions Not Subject to 2% Limit

1. Gambling losses to the extent of gambling winnings, and
2. Handicapped individual's work-related expenses (such as attendant care services at the individual's place of work that are necessary for the person to be able to work).

Nondeductible Miscellaneous Expenses

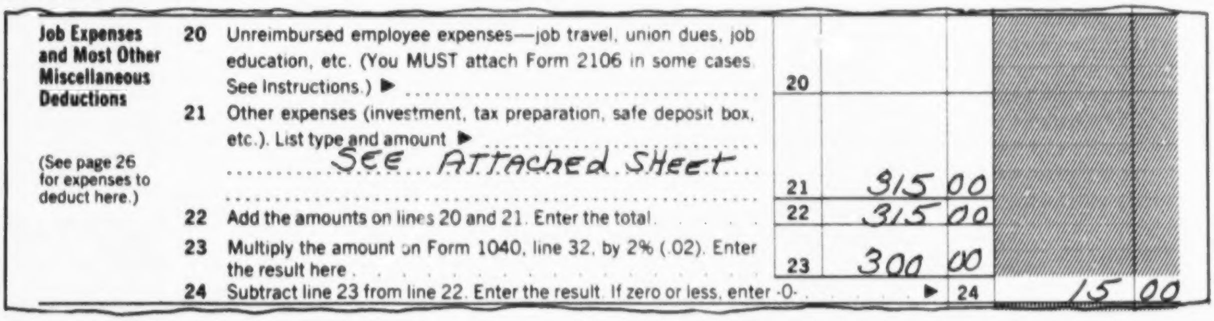
1. Burial or funeral expenses,
2. Capital expenditures,
3. Fees and licenses, such as car and marriage licenses, and dog tags,
4. Fines and penalties,
5. Home repairs, insurance, rent,
6. Illegal bribes and kickbacks,
7. Insurance (except medical),
8. Losses from the sale of a taxpayer's home, furniture, personal car, etc.,
9. Lost or misplaced cash or property,
10. Personal legal expenses, and
11. Commuting expenses in going to and from work.

Example

Bill and Mary Owen have an adjusted gross income (line 31, Form 1040) of $15,000. A list of their miscellaneous expenses follows. The *Miscellaneous Deductions* section of their Schedule A is shown as Exhibit 8. They also attached a separate sheet to their return listing each item and the amount of each item.

1988 income tax preparation fee	$ 55
Waitress uniforms (purchase and cleaning)	160
Union dues	90
IRA custodian fee	10

Exhibit 8



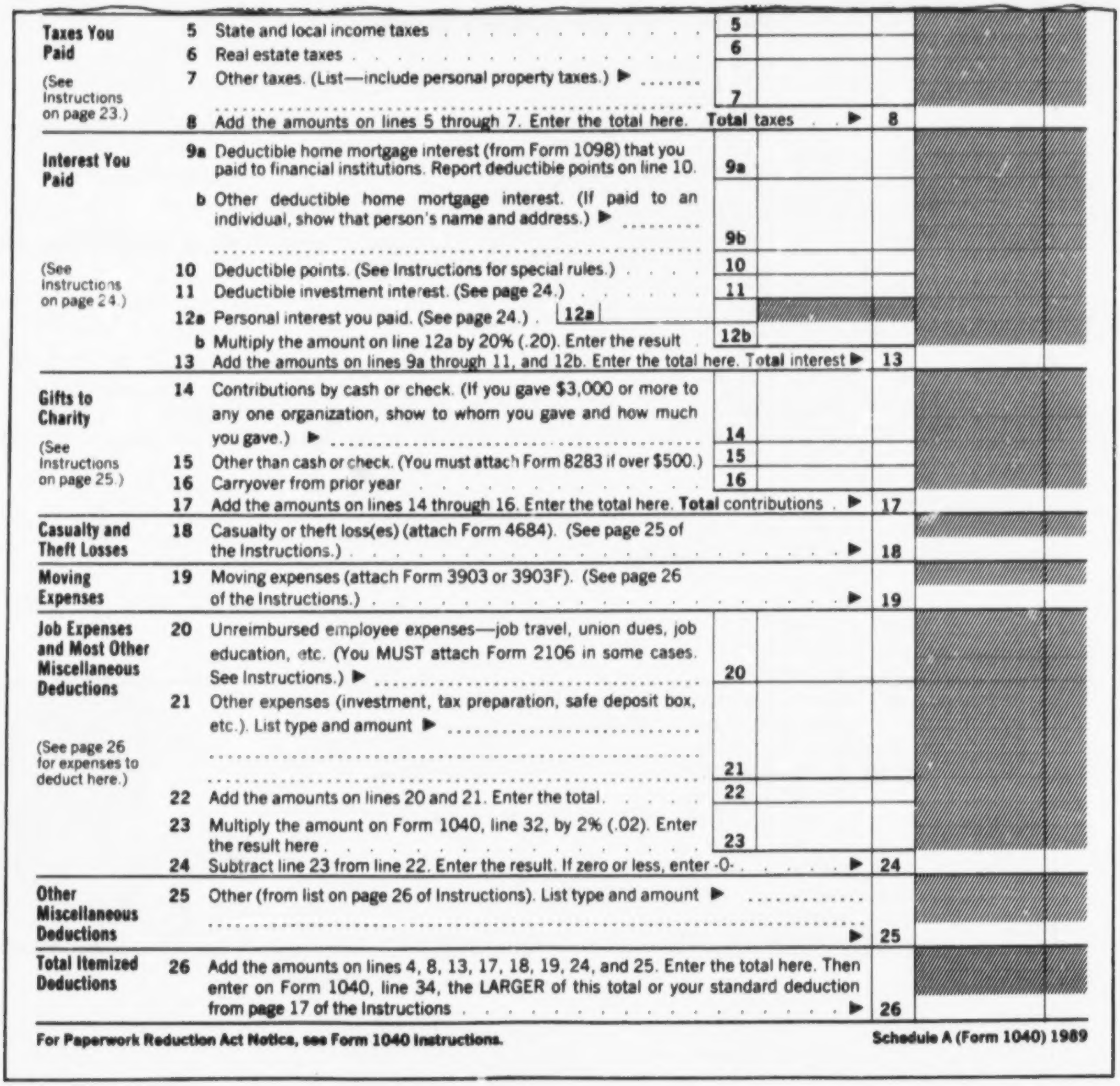
Job Expenses and Most Other Miscellaneous Deductions (See page 26 for expenses to deduct here.)	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20					
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶ SEE ATTAched SHeet	21	315	00			
	22	Add the amounts on lines 20 and 21. Enter the total.	22	315	00			
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here.	23	300	00			
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶				24	15	00

Exercise 4

Bert Harris has an adjusted gross income of $12,000 and the following miscellaneous itemized deductions. Complete the *Miscellaneous Deductions* section of his Schedule A (Exhibit 9).

1988 income tax preparation fee	$120
Safe deposit box rental (used to keep bonds)	50
Investment expenses	50
Journals and newsletters	300
Advisory service	240

Exhibit 9



Taxes You Paid (See Instructions on page 23.)	5	State and local income taxes	5			
	6	Real estate taxes	6			
	7	Other taxes. (List—include personal property taxes.) ▶	7			
	8	Add the amounts on lines 5 through 7. Enter the total here. **Total** taxes ▶			8	
Interest You Paid (See Instructions on page 24.)	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a			
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b			
	10	Deductible points. (See Instructions for special rules.)	10			
	11	Deductible investment interest. (See page 24.)	11			
	12a	Personal interest you paid. (See page 24.) 12a				
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b			
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶			13	
Gifts to Charity (See Instructions on page 25.)	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14			
	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15			
	16	Carryover from prior year	16			
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶			17	
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 25 of the Instructions.) ▶			18	
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 26 of the Instructions.) ▶			19	
Job Expenses and Most Other Miscellaneous Deductions (See page 26 for expenses to deduct here.)	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20			
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶	21			
	22	Add the amounts on lines 20 and 21. Enter the total.	22			
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here	23			
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶			24	
Other Miscellaneous Deductions	25	Other (from list on page 26 of Instructions). List type and amount ▶			25	
Total Itemized Deductions	26	Add the amounts on lines 4, 8, 13, 17, 18, 19, 24, and 25. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 17 of the Instructions ▶			26	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1989

Total Itemized Deductions

In the last section of Schedule A, the separate sections are added and the total is entered on line 26. The result is carried over to line 34, Form 1040, and is subtracted from adjusted gross income.

Exercise 5

Kevin and Jean Edwards' adjusted gross income is $28,000. A list of their itemized deductions is shown. All medical expenses are amounts in excess of insurance reimbursement. They purchased their home in 1987 and the mortgage is held by a commercial mortgage company. They have not refinanced the mortgage nor increased the principal balance since they bought their home. Using this information, complete their Schedule A (Exhibit 10).

Medical Expenses	
Insurance	$ 480
Hospital	600
Doctors and dentists	820
Prescription drugs	300
Insulin	120
Taxes	
State income tax	1,200
Real estate tax	780
Interest	
Mortgage	4,500
Car loan	900
Credit cards	102
Contributions	
Church	250
United Way	130
Miscellaneous	
Union dues	90
IRA custodian fee	10
Investment expenses	20

Exhibit 10

SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. 07

Name(s) shown on Form 1040

Your social security number

PROOF COPY

Medical and Dental Expenses **(Do not include expenses reimbursed or paid by others.)** (See Instructions on page 23.)	1a	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc.	1a			
	b	Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶	1b			
	2	Add the amounts on lines 1a and 1b. Enter the total here	2			
	3	Multiply the amount on Form 1040, line 32, by 7.5% (.075)	3			
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ▶			4	
Taxes You Paid (See Instructions on page 23.)	5	State and local income taxes	5			
	6	Real estate taxes	6			
	7	Other taxes. (List—include personal property taxes.) ▶	7			
	8	Add the amounts on lines 5 through 7. Enter the total here. **Total** taxes ▶			8	
Interest You Paid (See Instructions on page 24.)	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a			
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b			
	10	Deductible points. (See Instructions for special rules.)	10			
	11	Deductible investment interest. (See page 24.)	11			
	12a	Personal interest you paid. (See page 24.) 12a				
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b			
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶			13	
Gifts to Charity (See Instructions on page 25.)	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14			
	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15			
	16	Carryover from prior year	16			
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶			17	
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 25 of the Instructions.) ▶			18	
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 26 of the Instructions.) ▶			19	
Job Expenses and Most Other Miscellaneous Deductions (See page 26 for expenses to deduct here.)	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20			
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶	21			
	22	Add the amounts on lines 20 and 21. Enter the total.	22			
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here	23			
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶			24	
Other Miscellaneous Deductions	25	Other (from list on page 26 of Instructions). List type and amount ▶			25	
Total Itemized Deductions	26	Add the amounts on lines 4, 8, 13, 17, 18, 19, 24, and 25. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 17 of the Instructions ▶			26	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1989

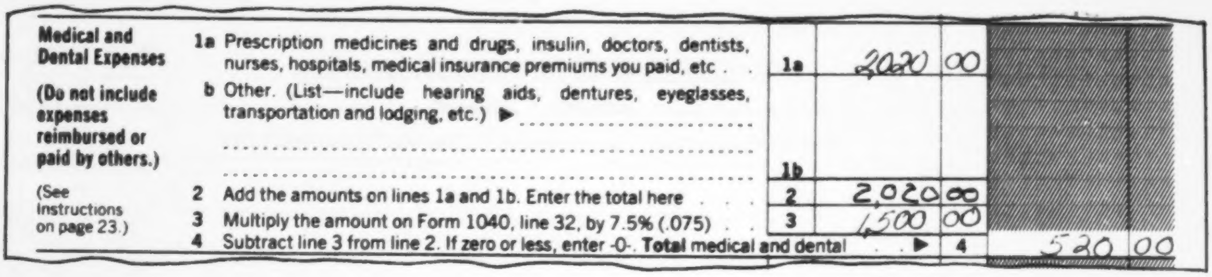
Summary

In this lesson you learned which expenses a taxpayer can claim as itemized deductions on Schedule A (Form 1040). There are restrictions and limitations within each category. These expenses are medical and dental expenses, taxes, interest, contributions, casualty and theft losses, moving expenses, and miscellaneous expenses. Most taxpayers will itemize deductions only if the total of these deductions exceed their standard deduction. However, some taxpayers must itemize deductions even if the total is less than their standard deduction.

Answers to Exercises

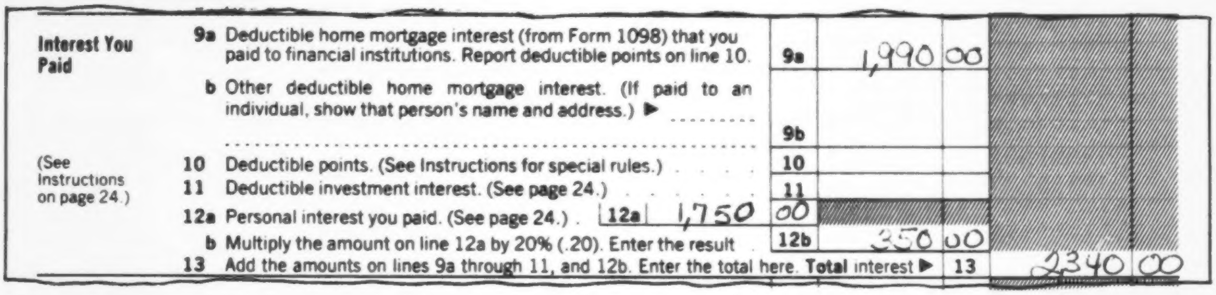
1. See filled-in Exhibit 3.
2. See filled-in Exhibit 5.
3. See filled-in Exhibit 7.
4. See filled-in Exhibit 9.
5. See filled-in Exhibit 10.

Exhibit 3, filled-in



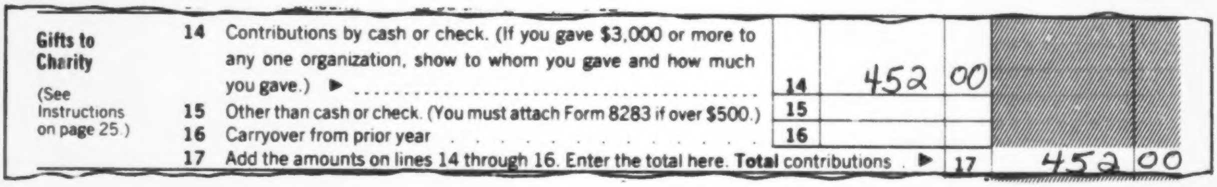
Medical and Dental Expenses **(Do not include expenses reimbursed or paid by others.)**	1a	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc.	1a	2020	00	
	b	Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶	1b			
(See Instructions on page 23.)	2	Add the amounts on lines 1a and 1b. Enter the total here	2	2,020	00	
	3	Multiply the amount on Form 1040, line 32, by 7.5% (.075)	3	1,500	00	
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ▶	4			520 00

Exhibit 5, filled-in



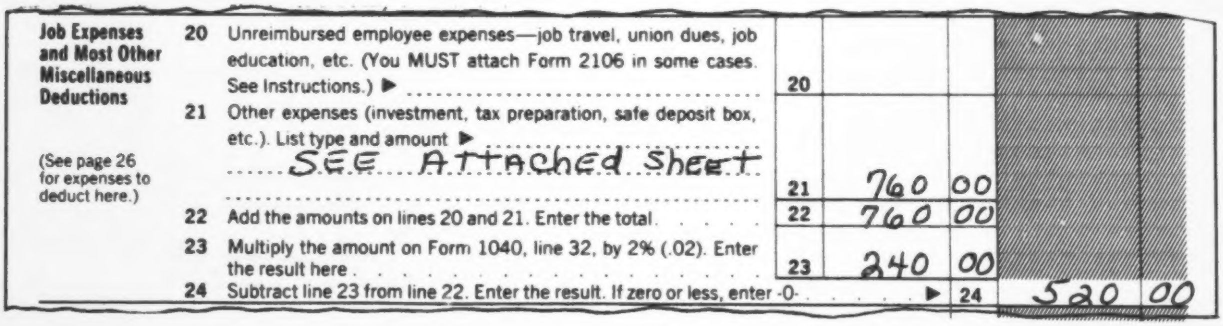
Interest You Paid	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a	1,990	00	
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b			
(See Instructions on page 24.)	10	Deductible points. (See Instructions for special rules.)	10			
	11	Deductible investment interest. (See page 24.)	11			
	12a	Personal interest you paid. (See page 24.) 12a 1,750 00				
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b	350	00	
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶	13			2340 00

Exhibit 7, filled-in



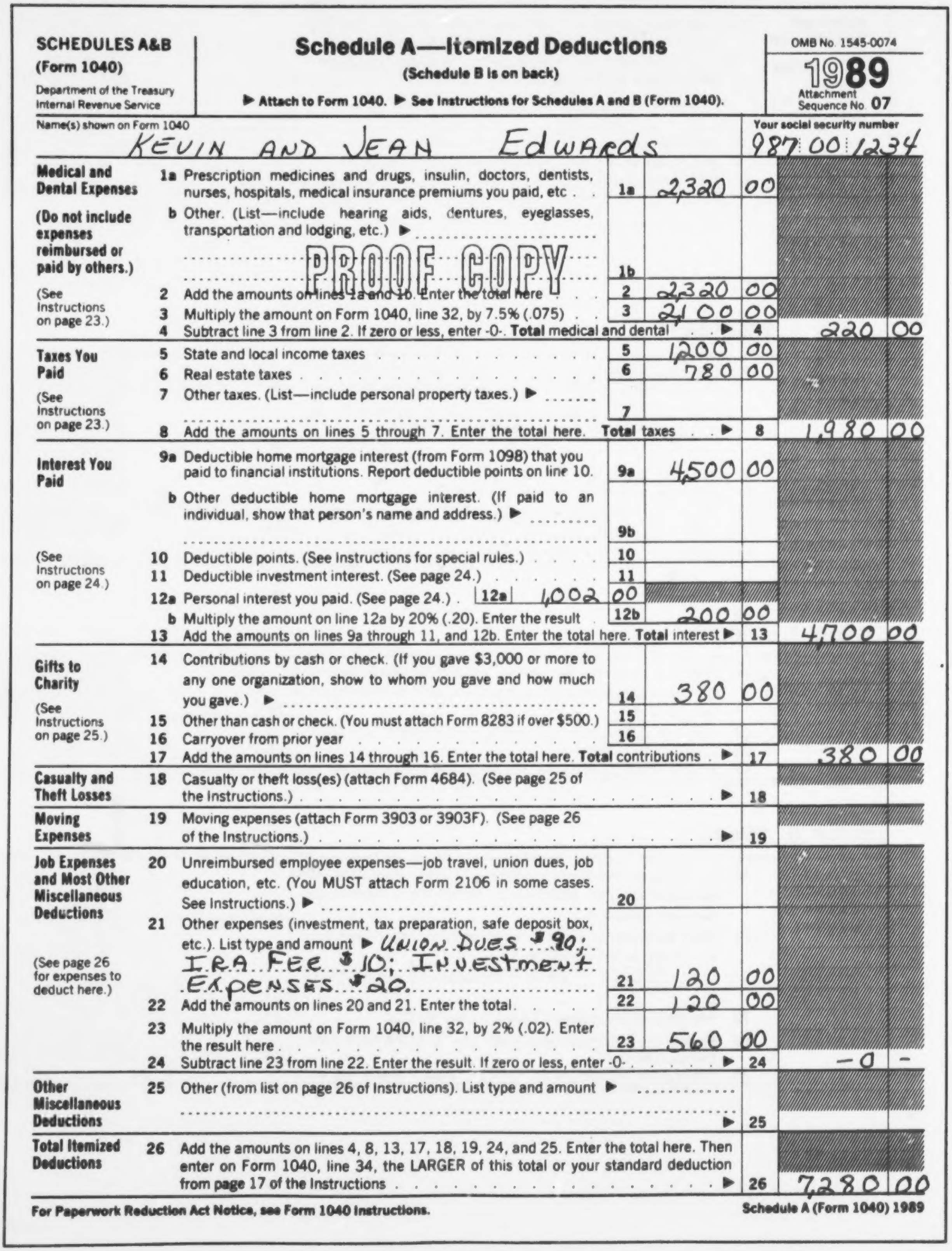
Gifts to Charity	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14	452	00	
(See Instructions on page 25.)	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15			
	16	Carryover from prior year	16			
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶	17			452 00

Exhibit 9, filled-in



Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20			
(See page 26 for expenses to deduct here.)	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶ SEE Attached Sheet	21	760	00	
	22	Add the amounts on lines 20 and 21. Enter the total.	22	760	00	
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here.	23	240	00	
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶	24			520 00

Exhibit 10, filled-in



SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. 07

Name(s) shown on Form 1040: KEVIN AND JEAN Edwards

Your social security number: 987 00 1234

PROOF COPY

Medical and Dental Expenses	1a	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc.	1a	2,320	00			
(Do not include expenses reimbursed or paid by others.)	b	Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶	1b					
(See Instructions on page 23.)	2	Add the amounts on lines 1a and 1b. Enter the total here	2	2,320	00			
	3	Multiply the amount on Form 1040, line 32, by 7.5% (.075)	3	2,100	00			
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ▶				4	220	00
Taxes You Paid	5	State and local income taxes	5	1,200	00			
	6	Real estate taxes	6	780	00			
(See Instructions on page 23.)	7	Other taxes. (List—include personal property taxes.) ▶	7					
	8	Add the amounts on lines 5 through 7. Enter the total here. **Total** taxes ▶				8	1,980	00
Interest You Paid	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a	4,500	00			
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b					
(See Instructions on page 24.)	10	Deductible points. (See Instructions for special rules.)	10					
	11	Deductible investment interest. (See page 24.)	11					
	12a	Personal interest you paid. (See page 24.) 12a 1,002 00						
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b	200	00			
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶				13	4,700	00
Gifts to Charity	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14	380	00			
(See Instructions on page 25.)	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15					
	16	Carryover from prior year	16					
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶				17	380	00
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 25 of the Instructions.) ▶				18		
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 26 of the Instructions.) ▶				19		
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20					
(See page 26 for expenses to deduct here.)	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶ UNION DUES $90; IRA FEE $10; INVESTMENT EXPENSES $20.	21	120	00			
	22	Add the amounts on lines 20 and 21. Enter the total.	22	120	00			
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here	23	560	00			
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶				24	-0	-
Other Miscellaneous Deductions	25	Other (from list on page 26 of Instructions). List type and amount ▶				25		
Total Itemized Deductions	26	Add the amounts on lines 4, 8, 13, 17, 18, 19, 24, and 25. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 17 of the Instructions ▶				26	7,280	00

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1989

Module III

Lesson 6

Tax Computation

Objective

At the end of this lesson you will be able to complete the *Tax Computation* section of Form 1040 by figuring:

1. Standard deduction.
2. Taxable income.
3. Tax liability.

Contents

Introduction

Itemized Deductions

Standard Deduction

Taxable Income

Tax Table

Summary

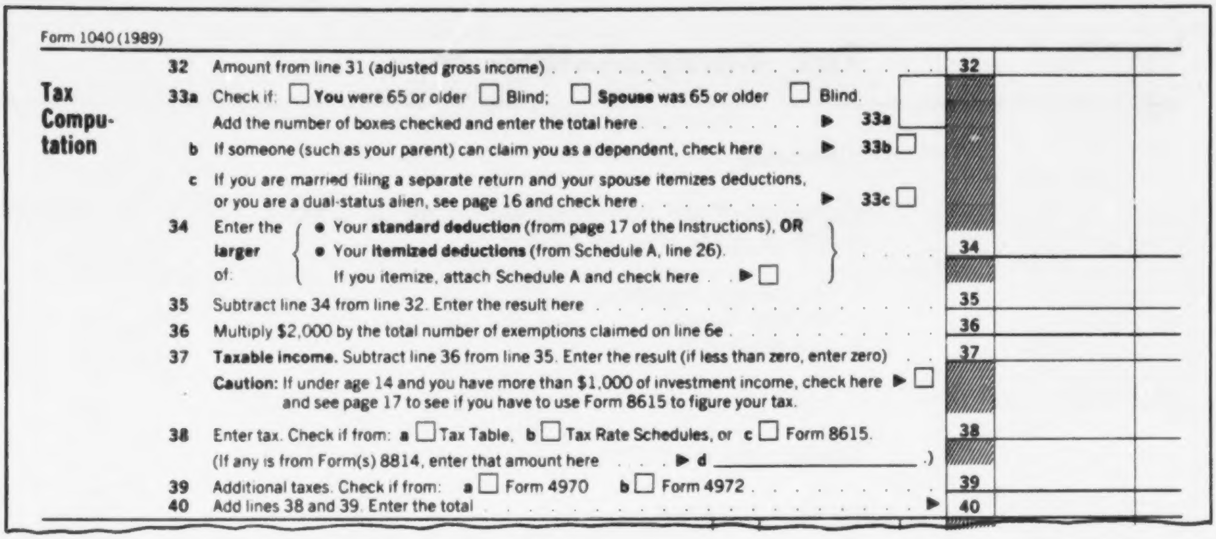
Answers to Exercises

Introduction

Filling in the *Tax Computation* section of Form 1040 is handled differently for taxpayers who itemize and taxpayers who do not. If the taxpayer itemizes, fill in the *Tax Computation* section after you complete Schedule A (Form 1040). For taxpayers who do not itemize, go on to the *Tax Computation* section directly from the *Adjustments to Income* section of Form 1040.

✶ **Caution: As this publication was being prepared for print, both Houses of Congress voted to repeal the supplemental Medicare premium. For additional information, see page v at the beginning of this book.**

Exhibit 1



Form 1040 (1989)

Tax Computation

32 Amount from line 31 (adjusted gross income) 32

33a Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind.
Add the number of boxes checked and enter the total here . . . . ▶ 33a ☐

b If someone (such as your parent) can claim you as a dependent, check here . . ▶ 33b ☐

c If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here . . . . ▶ 33c ☐

34 Enter the **larger** of:
- Your **standard deduction** (from page 17 of the Instructions), **OR**
- Your **itemized deductions** (from Schedule A, line 26).

If you itemize, attach Schedule A and check here . . ▶ ☐ 34

35 Subtract line 34 from line 32. Enter the result here 35

36 Multiply $2,000 by the total number of exemptions claimed on line 6e 36

37 **Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) . . 37

Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐
and see page 17 to see if you have to use Form 8615 to figure your tax.

38 Enter tax. Check if from: **a** ☐ Tax Table, **b** ☐ Tax Rate Schedules, or **c** ☐ Form 8615. 38
(If any is from Form(s) 8814, enter that amount here . . . ▶ **d** ____________ .)

39 Additional taxes. Check if from: **a** ☐ Form 4970 **b** ☐ Form 4972 39

40 Add lines 38 and 39. Enter the total . . . . ▶ 40

Note: A different computation is used to figure the tax on the income of children under the age of 14 who have more than $1,000 of investment income. See Module IV, Lesson 6.

Itemized Deductions

The total itemized deductions from line 26, Schedule A are entered on line 34, Form 1040. This amount is used to reduce the adjusted gross income that is reported on lines 31 and 32 of the taxpayer's Form 1040.

Standard Deduction

Taxpayers who do not itemize deductions also take the standard deduction on line 34, Form 1040. This amount is used to reduce the adjusted gross income that is reported on lines 31 and 32 of the taxpayer's Form 1040.

Generally, if a taxpayer's itemized deductions are less than his or her standard deduction, use the taxpayer's standard deduction to compute his or her tax. However, as explained in Module III, Lesson 5, certain taxpayers cannot claim the standard deduction. They must itemize deductions or enter "0" on line 34.

The items that must be completed to figure standard deduction on Form 1040 are the same as the items on Form 1040A. The same rules apply. See Module II, Lesson 9, for a complete discussion of the standard deduction.

Line 33a —Check boxes for indicating whether the taxpayer or the taxpayer's spouse is 65 or over or blind and the space for entering the total boxes checked.

Line 33b —Check box if taxpayer can be claimed as a dependent on another person's return.

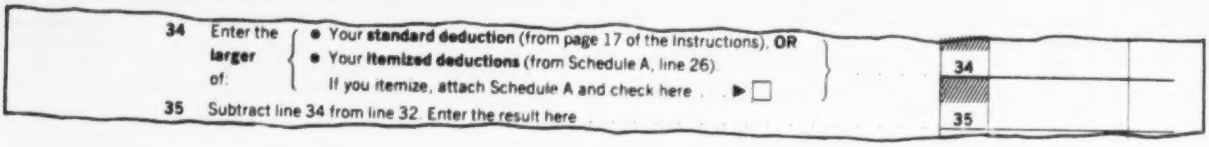
Line 33c —Check box if taxpayer is married filing a separate return and the taxpayer's spouse itemizes deductions or if taxpayer is a dual status alien.

Example

Ellen White is 28 years old and has a son, Allen, who lived with her the entire year. She files as head of household for 1989. She must file Form

1040 because she received a $45 capital gain distribution. Her itemized deductions are $2,375. Therefore, she enters her standard deduction of $4,550 on line 34, Form 1040. (See Exhibit 2.)

Exhibit 2



34	Enter the **larger** of:	• Your **standard deduction** (from page 17 of the instructions), **OR** • Your **itemized deductions** (from Schedule A, line 26). If you itemize, attach Schedule A and check here . . ▶ ☐	34	
35	Subtract line 34 from line 32. Enter the result here		35	

Exercise 1

For each of the taxpayers described, figure the standard deduction you would enter on line 34, Form 1040.

a. Bill White is single and 37 years old. His children, Bill Jr. and Brenda, live with him. He files as head of household.

____

b. Jennie Jones, age 45, is married and files a separate return. Neither Jennie nor her husband Don itemize deductions.

____

c. Richard Dawn, age 27, and Helen Dawn, age 30, are married and file a joint return.

____

Standard deduction for person 65 or over or blind. In Module II, Lesson 9, you learned that taxpayers who are 65 or over or blind, use a higher standard deduction. If line 33a, Form 1040, is completed, use the chart shown here (Exhibit 3) from the Form 1040 instructions to find the amount to enter on line 34.

Exhibit 3

Standard Deduction Chart for Most People

DO NOT use this chart if you were 65 or older or blind OR if someone can claim you as a dependent.

If your filing status is:	Your standard deduction is:
Single	$3,100
Married filing joint return or Qualifying widow(er) with dependent child	$5,200
Married filing separate return	$2,600
Head of household	$4,550

Standard Deduction Chart for People Age 65 or Older or Blind

If someone can claim you as a dependent, use the worksheet below, instead.

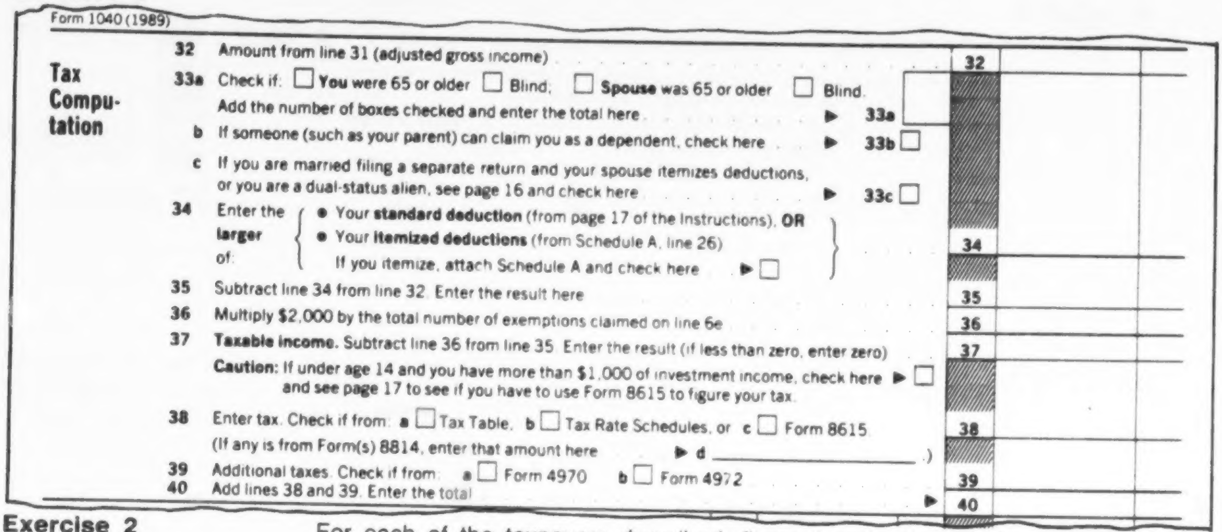
Enter the number from the box on line 33a of Form 1040 ▶ ☐ **Caution:** Do not use the number of exemptions from line 6e.

If your filing status is:	and the number in the box above is:	Your standard deduction is:
Single	1	$3,850
	2	4,600
Married filing joint return or Qualifying widow(er) with dependent child	1	$5,800
	2	6,400
	3	7,000
	4	7,600
Married filing separate return	1	$3,200
	2	3,800
	3	4,400
	4	5,000
Head of household	1	$5,300
	2	6,050

Example

Lee and Sharon Ash are married and file a joint return for 1989. Lee is 68 and blind. Sharon is 66. Using the chart (Exhibit 3) you determine that their standard deduction for 1989 is $7,000. (See Exhibit 4.)

Exhibit 4



Form 1040 (1989)

Tax Computation

32 Amount from line 31 (adjusted gross income) . . . 32

33a Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind.
Add the number of boxes checked and enter the total here . . . ▶ 33a ☐

b If someone (such as your parent) can claim you as a dependent, check here . . ▶ 33b ☐

c If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here . . . ▶ 33c ☐

34 Enter the **larger** of:
- Your **standard deduction** (from page 17 of the Instructions), **OR**
- Your **itemized deductions** (from Schedule A, line 26)

If you itemize, attach Schedule A and check here . ▶ ☐ . . . 34

35 Subtract line 34 from line 32. Enter the result here . . . 35

36 Multiply $2,000 by the total number of exemptions claimed on line 6e . . . 36

37 **Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) . . . 37

Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and **see page** 17 to see if you have to use Form 8615 to figure your tax.

38 Enter tax. Check if from: **a** ☐ Tax Table, **b** ☐ Tax Rate Schedules, or **c** ☐ Form 8615 . . . 38
(If any is from Form(s) 8814, enter that amount here ▶ **d** ____________)

39 Additional taxes. Check if from: **a** ☐ Form 4970 **b** ☐ Form 4972 . . . 39

40 Add lines 38 and 39. Enter the total . . . ▶ 40

Exercise 2

For each of the taxpayers described, figure the standard deduction you would enter on line 34, Form 1040.

a. Lily Brown, 68 years old, is married filing a separate return. Neither Lily nor her husband itemize deductions.

____

b. Tom Evans is 65 years old, blind, and married to Sandy who is 61. The Evans are filing a joint return.

____

c. Bill Day is 69 years old. His sister, who is 67 years old, lives with Bill and receives all her support from him. Bill is filing as head of household.

____

Standard deduction for persons who can be claimed as dependents. The special rules for figuring the standard deduction for persons who can be claimed as dependents on another taxpayer's return are explained in Module II, Lesson 9.

If the taxpayer you are helping can be claimed as a dependent on another taxpayer's return, be sure to check the box on line 33b.

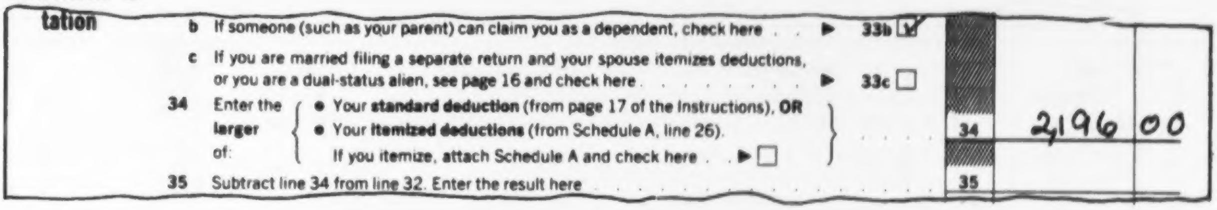
Example

Millie Lewis, 17 years old, is a full-time student who can be claimed as a dependent on her parents' 1989 tax return. Millie worked during the summer and earned $2,196. She also received $345 from a raffle in which she participated. Millie's standard deduction is $2,196 and is computed as follows:

1) Earned income	$2,196
2) Minimum standard deduction	500
3) Larger of lines 1 and 2.	2,196
4) Standard deduction based on filing status shown on return	3,100
5) Standard deduction—smaller of lines 3 and 4.	$2,196

Millie's Form 1040 showing her standard deduction is shown in Exhibit 5.

Exhibit 5



tation

b If someone (such as your parent) can claim you as a dependent, check here . . ▶ 33b ☑

c If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here . . . . ▶ 33c ☐

34 Enter the **larger** of:
- Your **standard deduction** (from page 17 of the Instructions), **OR**
- Your **itemized deductions** (from Schedule A, line 26).

If you itemize, attach Schedule A and check here . . ▶ ☐ 34 2,196 00

35 Subtract line 34 from line 32. Enter the result here 35

Exercise 3

Bob Green, age 24, is single and can be claimed as a dependent on his parents' return. Bob's total income is $1,000. Of this amount, $400 is wages and $600 is unearned income. Bob has no itemized deductions. Figure Bob's standard deduction using the worksheet (Exhibit 6).

Exhibit 6

1) Earned income ______
2) Minimum standard deduction ______
3) Larger of lines 1 and 2 ______
4) Standard deduction based on filing status shown on return ______
5) Standard deduction—smaller of lines 3 and 4 ______

Taxable Income

Subtract the amount on line 34 from line 32. Enter the result on line 35.

Next multiply $2,000 times the number of exemptions claimed on line 6e and enter the result on line 36. When this is subtracted from line 35, the result is taxable income, which goes on line 37.

Example

John Samuels is single, age 29, and claims only his own exemption. His adjusted gross income from line 32, Form 1040, is $16,000.

John itemized deductions and had $3,734 on line 26, Schedule A. His taxable income is figured as follows:

Adjusted gross income		$16,000
Less: Itemized deductions from line 26, Schedule A	$3,734	
$2,000 × John's personal exemption	2,000	5,734
Taxable income		$10,266

Exercise 4

a. Joe and Millie are married and file a joint return. They are both under age 65. They claim their three children and have itemized deductions of $2,700 (from line 26, Schedule A). Figure their taxable income if their adjusted gross income is:

(1) $16,850

Answer

(2) $15,720

Answer

b. Al is married, age 46, files a separate return, has adjusted gross income of $14,378, and claims only his own exemption. Neither Al nor his wife itemize deductions. Al's standard deduction is $2,600. What is his taxable income?

Answer

c. Nancy is single and age 24. She claims only her own exemption. Her adjusted gross income is $11,920. Nancy's standard deduction is $3,100. What is her taxable income?

Answer

Tax Table

Most people with less than $50,000 in taxable income use the *Tax Table* to find their tax. The part of the *Tax Table* shown here (Exhibit 7) is reprinted from the instructions for Form 1040.

Exhibit 7

1989 Tax Table—*Continued*

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
5,000					
5,000	5,050	754	754	754	754
5,050	5,100	761	761	761	761
5,100	5,150	769	769	769	769
5,150	5,200	776	776	776	776
5,200	5,250	784	784	784	784
5,250	5,300	791	791	791	791
5,300	5,350	799	799	799	799
5,350	5,400	806	806	806	806
5,400	5,450	814	814	814	814
5,450	5,500	821	821	821	821
5,500	5,550	829	829	829	829
5,550	5,600	836	836	836	836
5,600	5,650	844	844	844	844
5,650	5,700	851	851	851	851
5,700	5,750	859	859	859	859
5,750	5,800	866	866	866	866
5,800	5,850	874	874	874	874
5,850	5,900	881	881	881	881
5,900	5,950	889	889	889	889
5,950	6,000	896	896	896	896
6,000					
6,000	6,050	904	904	904	904
6,050	6,100	911	911	911	911
6,100	6,150	919	919	919	919
6,150	6,200	926	926	926	926
6,200	6,250	934	934	934	934
6,250	6,300	941	941	941	941
6,300	6,350	949	949	949	949
6,350	6,400	956	956	956	956
6,400	6,450	964	964	964	964
6,450	6,500	971	971	971	971
6,500	6,550	979	979	979	979
6,550	6,600	986	986	986	986
6,600	6,650	994	994	994	994
6,650	6,700	1,001	1,001	1,001	1,001
6,700	6,750	1,009	1,009	1,009	1,009
6,750	6,800	1,016	1,016	1,016	1,016
6,800	6,850	1,024	1,024	1,024	1,024
6,850	6,900	1,031	1,031	1,031	1,031
6,900	6,950	1,039	1,039	1,039	1,039
6,950	7,000	1,046	1,046	1,046	1,046
7,000					
7,000	7,050	1,054	1,054	1,054	1,054
7,050	7,100	1,061	1,061	1,061	1,061
7,100	7,150	1,069	1,069	1,069	1,069
7,150	7,200	1,076	1,076	1,076	1,076
7,200	7,250	1,084	1,084	1,084	1,084
7,250	7,300	1,091	1,091	1,091	1,091
7,300	7,350	1,099	1,099	1,099	1,099
7,350	7,400	1,106	1,106	1,106	1,106
7,400	7,450	1,114	1,114	1,114	1,114
7,450	7,500	1,121	1,121	1,121	1,121
7,500	7,550	1,129	1,129	1,129	1,129
7,550	7,600	1,136	1,136	1,136	1,136
7,600	7,650	1,144	1,144	1,144	1,144
7,650	7,700	1,151	1,151	1,151	1,151
7,700	7,750	1,159	1,159	1,159	1,159
7,750	7,800	1,166	1,166	1,166	1,166
7,800	7,850	1,174	1,174	1,174	1,174
7,850	7,900	1,181	1,181	1,181	1,181
7,900	7,950	1,189	1,189	1,189	1,189
7,950	8,000	1,196	1,196	1,196	1,196
8,000					
8,000	8,050	1,204	1,204	1,204	1,204
8,050	8,100	1,211	1,211	1,211	1,211
8,100	8,150	1,219	1,219	1,219	1,219
8,150	8,200	1,226	1,226	1,226	1,226
8,200	8,250	1,234	1,234	1,234	1,234
8,250	8,300	1,241	1,241	1,241	1,241
8,300	8,350	1,249	1,249	1,249	1,249
8,350	8,400	1,256	1,256	1,256	1,256
8,400	8,450	1,264	1,264	1,264	1,264
8,450	8,500	1,271	1,271	1,271	1,271
8,500	8,550	1,279	1,279	1,279	1,279
8,550	8,600	1,286	1,286	1,286	1,286
8,600	8,650	1,294	1,294	1,294	1,294
8,650	8,700	1,301	1,301	1,301	1,301
8,700	8,750	1,309	1,309	1,309	1,309
8,750	8,800	1,316	1,316	1,316	1,316
8,800	8,850	1,324	1,324	1,324	1,324
8,850	8,900	1,331	1,331	1,331	1,331
8,900	8,950	1,339	1,339	1,339	1,339
8,950	9,000	1,346	1,346	1,346	1,346
9,000					
9,000	9,050	1,354	1,354	1,354	1,354
9,050	9,100	1,361	1,361	1,361	1,361
9,100	9,150	1,369	1,369	1,369	1,369
9,150	9,200	1,376	1,376	1,376	1,376
9,200	9,250	1,384	1,384	1,384	1,384
9,250	9,300	1,391	1,391	1,391	1,391
9,300	9,350	1,399	1,399	1,399	1,399
9,350	9,400	1,406	1,406	1,406	1,406
9,400	9,450	1,414	1,414	1,414	1,414
9,450	9,500	1,421	1,421	1,421	1,421
9,500	9,550	1,429	1,429	1,429	1,429
9,550	9,600	1,436	1,436	1,436	1,436
9,600	9,650	1,444	1,444	1,444	1,444
9,650	9,700	1,451	1,451	1,451	1,451
9,700	9,750	1,459	1,459	1,459	1,459
9,750	9,800	1,466	1,466	1,466	1,466
9,800	9,850	1,474	1,474	1,474	1,474
9,850	9,900	1,481	1,481	1,481	1,481
9,900	9,950	1,489	1,489	1,489	1,489
9,950	10,000	1,496	1,496	1,496	1,496
10,000					
10,000	10,050	1,504	1,504	1,504	1,504
10,050	10,100	1,511	1,511	1,511	1,511
10,100	10,150	1,519	1,519	1,519	1,519
10,150	10,200	1,526	1,526	1,526	1,526
10,200	10,250	1,534	1,534	1,534	1,534
10,250	10,300	1,541	1,541	1,541	1,541
10,300	10,350	1,549	1,549	1,549	1,549
10,350	10,400	1,556	1,556	1,556	1,556
10,400	10,450	1,564	1,564	1,564	1,564
10,450	10,500	1,571	1,571	1,571	1,571
10,500	10,550	1,579	1,579	1,579	1,579
10,550	10,600	1,586	1,586	1,586	1,586
10,600	10,650	1,594	1,594	1,594	1,594
10,650	10,700	1,601	1,601	1,601	1,601
10,700	10,750	1,609	1,609	1,609	1,609
10,750	10,800	1,616	1,616	1,616	1,616
10,800	10,850	1,624	1,624	1,624	1,624
10,850	10,900	1,631	1,631	1,631	1,631
10,900	10,950	1,639	1,639	1,639	1,639
10,950	11,000	1,646	1,646	1,646	1,646
11,000					
11,000	11,050	1,654	1,654	1,654	1,654
11,050	11,100	1,661	1,661	1,661	1,661
11,100	11,150	1,669	1,669	1,669	1,669
11,150	11,200	1,676	1,676	1,676	1,676
11,200	11,250	1,684	1,684	1,684	1,684
11,250	11,300	1,691	1,691	1,691	1,691
11,300	11,350	1,699	1,699	1,699	1,699
11,350	11,400	1,706	1,706	1,706	1,706
11,400	11,450	1,714	1,714	1,714	1,714
11,450	11,500	1,721	1,721	1,721	1,721
11,500	11,550	1,729	1,729	1,729	1,729
11,550	11,600	1,736	1,736	1,736	1,736
11,600	11,650	1,744	1,744	1,744	1,744
11,650	11,700	1,751	1,751	1,751	1,751
11,700	11,750	1,759	1,759	1,759	1,759
11,750	11,800	1,766	1,766	1,766	1,766
11,800	11,850	1,774	1,774	1,774	1,774
11,850	11,900	1,781	1,781	1,781	1,781
11,900	11,950	1,789	1,789	1,789	1,789
11,950	12,000	1,796	1,796	1,796	1,796
12,000					
12,000	12,050	1,804	1,804	1,804	1,804
12,050	12,100	1,811	1,811	1,811	1,811
12,100	12,150	1,819	1,819	1,819	1,819
12,150	12,200	1,826	1,826	1,826	1,826
12,200	12,250	1,834	1,834	1,834	1,834
12,250	12,300	1,841	1,841	1,841	1,841
12,300	12,350	1,849	1,849	1,849	1,849
12,350	12,400	1,856	1,856	1,856	1,856
12,400	12,450	1,864	1,864	1,864	1,864
12,450	12,500	1,871	1,871	1,871	1,871
12,500	12,550	1,879	1,879	1,879	1,879
12,550	12,600	1,886	1,886	1,886	1,886
12,600	12,650	1,894	1,894	1,894	1,894
12,650	12,700	1,901	1,901	1,901	1,901
12,700	12,750	1,909	1,909	1,909	1,909
12,750	12,800	1,916	1,916	1,916	1,916
12,800	12,850	1,924	1,924	1,924	1,924
12,850	12,900	1,931	1,931	1,931	1,931
12,900	12,950	1,939	1,939	1,939	1,939
12,950	13,000	1,946	1,946	1,946	1,946
13,000					
13,000	13,050	1,954	1,954	1,954	1,954
13,050	13,100	1,961	1,961	1,961	1,961
13,100	13,150	1,969	1,969	1,969	1,969
13,150	13,200	1,976	1,976	1,976	1,976
13,200	13,250	1,984	1,984	1,984	1,984
13,250	13,300	1,991	1,991	1,991	1,991
13,300	13,350	1,999	1,999	1,999	1,999
13,350	13,400	2,006	2,006	2,006	2,006
13,400	13,450	2,014	2,014	2,014	2,014
13,450	13,500	2,021	2,021	2,021	2,021
13,500	13,550	2,029	2,029	2,029	2,029
13,550	13,600	2,036	2,036	2,036	2,036
13,600	13,650	2,044	2,044	2,044	2,044
13,650	13,700	2,051	2,051	2,051	2,051
13,700	13,750	2,059	2,059	2,059	2,059
13,750	13,800	2,066	2,066	2,066	2,066
13,800	13,850	2,074	2,074	2,074	2,074
13,850	13,900	2,081	2,081	2,081	2,081
13,900	13,950	2,089	2,089	2,089	2,089
13,950	14,000	2,096	2,096	2,096	2,096

* This column must also be used by a qualifying widow(er).

Continued on next page

To find the correct tax, read down the income column to the taxable income amount shown on line 37 of Form 1040. Then read across the line to the column heading that describes the filing status used on page 1 of the Form 1040. The amount shown at the point the two lines meet is the tax. Enter this amount on line 38 of Form 1040, and check the box marked *Tax Table*. Pay special attention to the headings for the income lines ("at least, but less than") to make sure you use the right income line.

Example

George and Ellen Raymonds file a joint return. Their taxable income on line 37 of Form 1040 is $7,850. Because their taxable income is exactly $7,850, they use the $7,850–$7,900 line, not the $7,800–$7,850 line. Next, they find the column for married filing jointly and read down the column. Their tax would be $1,181.

Exercise 5

a. Ann is a single taxpayer. What is her tax if her taxable income is $5,487?

Answer

b. Earl files as head of household, has an adjusted gross income of $15,330, and claims three exemptions. His itemized deductions (line 26 of Schedule A) total $2,275. The standard deduction for head of household is $4,550.

(1) What is his taxable income?

Answer

(2) What is his tax?

Answer

Computation of Supplemental Medicare Premium

* In Module II, Lesson 10, you learned how to figure a supplemental Medicare premium on Schedule 2, Form 1040A. The following example explains how to figure the supplemental premium when you help the taxpayer complete Form 8808 for filing Form 1040.

* **Caution: As this publication was being prepared for print, both Houses of Congress voted to repeal the supplemental Medicare premium. For additional information, see page v at the beginning of this book.**

Example

Let's assume that in the previous example, George and Ellen are both eligible for Medicare Part A for all of 1989. Their tax on line 53, Form 1040 is $1,181 (they claim no credits).

George and Ellen figure their supplemental Medicare premium on Form 8808 (Exhibit 8). They check box 2 because they were both eligible for Medicare Part A. They enter the amount from Form 1040, line 53, on line 7. They also enter this amount on line 8 because they checked box 2 in Part I. Their tax of $1,181 is at least $150; therefore, they will owe the supplemental premium.

Line 9 instructs George and Ellen to use the amount on line 8 to find their supplemental premium on page 2 of the Instructions. The amount on line 8, $1,181, is between $1,150 and $1,200. The figure to the right in bold print is $176. This is their supplemental premium for 1989.

On line 10, they enter $1,600 because they checked box 2 in Part I. On line 11, they enter the smaller of the amounts on lines 9 and 10. The smaller amount, $176, is the supplemental premium. They also enter this amount on line 54 of their Form 1040.

Exhibit 8

Form **8808**

Department of the Treasury
Internal Revenue Service

Supplemental Medicare Premium

▶ **Attach to Form 1040.**
▶ **See separate Instructions.**

OMB No. 1545-xxxx
1989
Attachment Sequence No. **39**

Name(s) shown on return: GEORGE AND Ellen RAYMONDS

Your social security number: 516 00 1499

Purpose of Premium The supplemental Medicare premium will help pay the cost of new Medicare catastrophic and prescription drug coverage.

See the separate instructions for this form to see if you must complete and attach it to your Form 1040.

PROOF COPY

Part I **Check the Box That Applies to You** (check only one box)

If your filing status is:	**And for more than 6 full months in 1989:**	**Check box:**
Single, Head of household, or Qualifying widow(er) with dependent child	1 You were eligible for Medicare Part A	1 ☐
Married filing a joint return	2 Both you and your spouse were eligible for Medicare Part A	2 ☑
	3 Only one of you was eligible for Medicare Part A	3 ☐
Married filing a separate return	4 You were eligible for Medicare Part A, and you did **not** live with your spouse at any time in 1989	4 ☐
	5 Only one of you was eligible for Medicare Part A, and you lived with your spouse at any time in 1989	5 ☐
	6 Both you and your spouse were eligible for Medicare Part A, and you lived with your spouse at any time in 1989	6 ☐

Did you (or your spouse if you file a joint return) receive a taxable Federal, state, or local government pension other than social security?

☐ Yes → Go to Part III now to see if you qualify for a lower premium.
☐ No → To to Part II below.

Part II **Figure Your Premium**

7	Enter the amount from Form 1040, line 53 (but if the amount on line 53 is **more than** the amount on Form 1040, line 47, or if you are claiming the earned income credit, enter the amount from line 5 of the worksheet in the Instructions)	7	1,181 00
8	• If you checked Box 3 above, divide the amount on line 7 by 2. Enter the result here • If you checked any of the other boxes, enter the full amount from line 7 here.	8	1,181 00
	Note: *If line 8 is less than $150, stop here; you* **do not** *owe the premium.* *If line 8 is $150 or more, go to line 9.*		
9	Use the amount on line 8 to find the premium in the **premium table** on page 2 of the Instructions. Enter the amount from that table here ▶	9	176 00
10	Enter $800 ($1,600 if you checked Box 2 or 6 above)	10	1,600 00
11	Compare the amounts on lines 9 and 10. Enter the **smaller** of the two amounts here and on Form 1040, line 54. This is your **supplemental Medicare premium** ▶	11	176 00

For Paperwork Reduction Act Notice, see separate Instructions.

Form **8808** (1989)

Some government retirees, both civilian and military, may qualify for a lower supplemental Medicare premium. The computation of the lower premium includes a formula to adjust government retirees' tax liability so that they do not pay more for the benefits than non-government retirees. It is important to remember that the adjustment reduces the amount of tax used to figure the premium.

Part III of Form 8808 is used to figure the lower premium.

Example

As in the previous example, George and Ellen are both eligible for Medicare Part A and are filing a joint return. George, 67, receives a $5,000 yearly government annuity and $2,400 social security. Ellen, 66, receives a $3,000 yearly government annuity and $2,050 social security. Their tax on line 53, Form 1040, is $1,181 (they claim no credits).

After completing Part I, George and Ellen go to Part III to see if they qualify for a lower premium because they both have taxable government pensions. In step 1A, they check box 2 because they checked box 2 in Part I.

On line B, they enter $9,000 because they checked box 2 in A. On line C they enter $4,450, their combined social security income. Since line B is greater than line C, George and Ellen qualify for the lower premium.

Step 2 of Part III is for figuring the lower premium. On lines 12 and 13 they enter $1,181 (their tax from line 53, Form 1040). Line 14 instructs them to go to Table C to figure their adjustment.

In the left column of Table C ("At least—But less than"), George and Ellen read across from the line that corresponds to their combined government pensions ($8,000) to the amount that corresponds to their combined social security income ($4,450). The amount of their adjustment is $600. They enter this amount on line 14.

They do not claim any credit for the elderly or disabled so they enter $0 on line 15. The result of $0 from $600 is $600, and this is the amount they enter on line 16. On line 17, they enter $581 after subtracting line 16 from line 13. $600 is more than $150 so they continue to line 18.

On the premium table on page 2 of the Instructions, they use the amount on line 17, $581, to find their premium of $86 to enter on line 18. On line 19 they enter $1,600 because they checked Box 2 in step 1A. When they compare lines 18 and 19, the **smaller** of the two amounts ($86 on line 18) is the amount they enter on line 20. This $86 is their supplemental Medicare premium.

Exhibit 9

Form 8808 (1989) Attachment Sequence No. 39

Part III Supplemental Medicare Premium If You Received a Taxable Federal, State, or Local Government Pension

If you (or your spouse if you checked Box 2 on page 1) received a **taxable government pension** (including military retirement pay), you may qualify for a lower premium. If you checked Box 3, you may qualify for a lower premium only if the spouse who was eligible for Medicare Part A also received a taxable government pension.

Use **Step 1** to see if you qualify. If you do, figure your premium in **Step 2,** below. If you don't qualify, use lines 7 through 11 on page 1 to figure your premium.

Step 1—See If You Qualify for a Lower Premium

PROOF COPY

A Check the same box that you checked in Part I on page 1:

1 ☐ 2 ☒ 3 ☐ 4 ☐ 5 ☐ 6 ☐

B Enter: $6,000 if you checked Box 1, 3, or 4 above, **or** $9,000 if you checked Box 2 above, **or** $4,500 if you checked Box 5 or 6 above . . . . **B** $ 9,000.00

C Enter on line C net social security and/or equivalent railroad retirement benefits for 1989. If none, enter zero.

- If you checked Box 1 or 4 above, enter your total net benefits for 1989 (from Box 5 of Forms SSA-1099 and RRB-1099).
- If you checked Box 2 above, enter the total of your AND your spouse's net benefits for 1989 from Box 5 of Forms SSA-1099 and RRB-1099).
- If you checked Box 3 above, enter the total net benefits for 1989 (from Box 5 of Forms SSA-1099 and RRB-1099) of the spouse who received the taxable government pension and was Medicare eligible.
- If you checked Box 5 or 6 above, see the Instructions for the amount to enter.

C $ 4,450.00

D Compare the amounts on lines B and C.

- If the amount on line B is **more than** the amount on line C, you may qualify for the lower premium. Go to Step 2.
- If the amount on line B is **equal to or less** than the amount on line C, you do **not** qualify for the lower premium. Go back to Part II on page 1 to figure your premium.

Step 2—Figure Your Premium (If you qualify in Step 1)

12	Enter the amount from Form 1040, line 53 (but if the amount on line 53 is **more than** the amount on Form 1040, line 47, or if you are claiming the earned income credit, enter the amount from line 5 of the worksheet in the Instructions.)	12	1181	00
13	• If you checked Box 3 above, divide the amount on line 12 by 2. Enter the result here. • If you checked any of the other boxes, enter the full amount from line 12 here.	13	1181	00
	Note: *If line 13 is less than $150, stop here; you* **do not** *owe the premium.* *If line 13 is $150 or more, go to line 14.*			
14	Enter the amount from the **Government Pension Table** in the Instructions for the Box you checked above. If you checked Box 1, 3, or 4 above, use **Table A.** If you checked Box 2, use **Table C.** If you checked Box 5 or 6, use **Table B**	14	600	00
15	Enter any credit for the elderly or the disabled (from Form 1040, line 42)	15	-0-	
16	Subtract line 15 from line 14. Enter the result (but not less than zero)	16	600	00
17	Subtract line 16 from line 13. Enter the result (but not less than zero). If the result is less than $150, stop here; you **do not** owe the premium. If the result is $150 or more, go to line 18	17	581	00
18	Use the amount on line 17 to find the premium in the **premium table** on page 2 of the Instructions. Enter the amount from that table here ▶	18	86	00
19	Enter $800 ($1,600 if you checked Box 2 or 6 above)	19	1,600	00
20	Compare the amounts on lines 18 and 19. Enter the **smaller** of the two amounts here and on Form 1040, line 54. This is your **supplemental Medicare premium** ▶	20	86	00

Summary

In this lesson you have learned to complete the *Tax Computation* section of Form 1040.

Answers to Exercises

1. a. $4,550.
   b. $2,600.
   c. $5,200.

2. a. $3,200.
   b. $6,400.
   c. $5,300.

3. See filled-in Exhibit 6

4. a. (1) $1,650.
      (2) $520.
   b. $9,778.
   c. $6,820.

5. a. $821.
   b. (1) $4,780.
      (2) $716.

Exhibit 6, filled-in

1) Earned income	$400
2) Minimum standard deduction	500
3) Larger of lines 1 and 2	500
4) Standard deduction based on filing status shown on return	3,100
5) Standard deduction—smaller of lines 3 and 4	500

Lesson 7 Tax Credits

Objectives

At the end of this lesson you will be able to:

1. Determine who qualifies for the child and dependent care credit and complete Form 2441.
2. Complete the *Credits* section of Form 1040.

Contents

Introduction

Credit for Child and Dependent Care Expenses

Credit for the Elderly or the Disabled

Mortgage Interest Credit

Credit Limitations

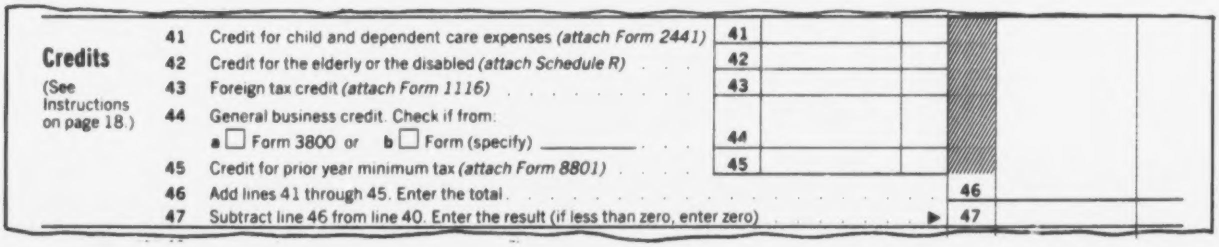
Summary

Answer to Exercise

Introduction

A credit lowers tax, dollar for dollar. A credit differs from a deduction, which lowers income before it is taxed. Taxpayers may take credits even if they do not itemize deductions. This lesson explains the credits that taxpayers who come to volunteer sites claim most often. You will now learn to figure the credit for child and dependent care on line 41 of Form 1040 (Exhibit 1). The *Credit for the Elderly or the Disabled* on line 42 is discussed in Module IV, Lesson 5. The credits that can be taken on lines 43, 44, and 45 are beyond the scope of the volunteer program.

Exhibit 1



Credits	41	Credit for child and dependent care expenses *(attach Form 2441)*	41		▨	
(See instructions on page 18.)	42	Credit for the elderly or the disabled *(attach Schedule R)*	42		▨	
	43	Foreign tax credit *(attach Form 1116)*	43		▨	
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ________	44		▨	
	45	Credit for prior year minimum tax *(attach Form 8801)*	45		▨	
	46	Add lines 41 through 45. Enter the total			46	
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) . . . . ▶			47	

Credit for Child and Dependent Care Expenses

One of the most commonly used credits is for child and dependent care expenses. Taxpayers may claim it if, in order to work or look for work, they must pay for the care of their children, disabled spouse, or other disabled dependents. This credit is explained in Module II, Lesson 11. The requirements for claiming the credit are the same for both Form 1040A and Form 1040. For Form 1040, the credit is figured on Form 2441, *Child and Dependent Care Expenses.* Form 2441 must be attached to Form 1040.

Preparing Form 2441

Specific instructions for preparing Form 2441 are on the form. However, you should be aware of the particular items following:

Part I - Lines 1 and 2: Write the name, address, social security number (SSN) or employer identification number (EIN), and the amount paid to the persons or organizations who provided the care for the qualifying persons during 1989. On line 2 add the amount in column (d) of line 1 and enter the total.

If the person you are helping received any benefits during the year under an employer-provided Dependent Care Assistance Program, fill in Part III **before** making any entries on Part II. Otherwise go on to Part II, below.

Part II - Lines 3 through 14: The child care credit is figured in this section of Form 2441. Be especially careful in filling out lines 7, 8, 9, and 10. The credit is figured on line 14 of Form 2441. See the instructions for the amount of credit the taxpayer can claim on line 41, Form 1040.

Part III - Lines 15 through 22: Complete this part **only** if the taxpayer received any benefits in 1989 under an employer-provided Dependent Care Assistance Program. Complete Part III **after** completing Part I.

Note: Taxpayers must withhold and pay matching social security taxes on wages they paid to employees working in their homes. If the employee provided the care in the taxpayer's home and was paid at least $50 for the care in any one calendar quarter, you need to find out if the taxpayer withheld social security tax from the wages and filed Form 942, *Employer's Quarterly Tax Return for Household Employees,* for each quarter. If not, you should advise the taxpayer to get Form 942 and Publication 926, Employment Taxes for Household Employers, or to consult a professional preparer.

Example

Mrs. Alma Hyde, SSN 123-00-1234, leaves her child at the A.M. Day Care Center while she works. The center is located at 221 Elm Ave., Anycity, OH, its EIN is 10-4487980. She paid $1,800 in child care expenses. She did not receive any benefits during the year under an employer provided Dependent Care Assistance Program. Her earned income was $10,500. This amount is also her total income, Form 1040, line 23. See Exhibit 2.

Exhibit 2

Form **2441**

Department of the Treasury
Internal Revenue Service

Child and Dependent Care Expenses

▶ Attach to Form 1040.
▶ See separate Instructions.

OMB No. 1545-0068
1989
Attachment Sequence No. 23

Name(s) as shown on Form 1040: ALMA Hyde

Your social security number: 123 00 1234

- If you are claiming the child and dependent care credit, complete Parts I and II below. But if you received employer-provided dependent care benefits, first complete Part III on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete Part I, below, and Part III on the back.

Part I **Persons or Organizations Who Provided the Care—You must complete this part.** (See the Instructions. If more space is needed, attach a statement.)

1 (a) Name	(b) Address (number, street, city, state, and ZIP code)	(c) Identification number (SSN or EIN)	(d) Amount paid (see Instructions)	
A.M. DAYCARE CENTER	221 ELM AVENUE Any City, OHIO 43704	10-4487980	1800	00

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2	Add the amounts in column (d) of line 1 and enter the total	2	1800	00

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* ***Form 942*** *for details.*

Part II **Credit for Child and Dependent Care Expenses**

3	Enter number of qualifying persons who were cared for in 1989. (See the Instructions for definition of qualifying persons.) **Caution:** *To qualify, the person(s)* ***must*** *have shared the same home with you in 1989* ▶	3	1	
4	Enter the amount of **qualified** expenses you incurred and actually paid in 1989 for the care of the qualifying person. (See **What Are Qualified Expenses?** in the Instructions.) **Do not enter more than** $2,400 ($4,800 if you paid for the care of two or more qualifying persons)	4	1,800	00
5	Enter the **excluded amount,** if any, from line 21 on page 2	5	-0	-
6	Subtract line 5 from line 4 and enter the result. If the result is zero or less, stop here. You **cannot** claim the credit	6	1,800	00
7	You **must** enter your **earned income.** (See the Instructions for definition of earned income.)	7	10,500	00
8	If you are married filing a joint return, you **must** enter your spouse's earned income. (If your spouse was a full-time student or disabled, see the Instructions for the amount to enter.)	8		
9	If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here	9		
10	• If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here. • All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here.	10	1,800	00
11	Enter decimal amount from table below that applies to the adjusted gross income on Form 1040, line 32	11	x .29	

If line 32 is: Over— But not over—	Decimal amount is:	If line 32 is: Over— But not over—	Decimal amount is:
$0—10,000	.30	$20,000—22,000	.24
10,000—12,000	.29	22,000—24,000	.23
12,000—14,000	.28	24,000—26,000	.22
14,000—16,000	.27	26,000—28,000	.21
16,000—18,000	.26	28,000	.20
18,000—20,000	.25		

12	Multiply the amount on line 10 by the decimal amount on line 11, and enter the result	12	522	00
13	Multiply any child and dependent care expenses for 1988 that you paid in 1989 by the percentage that applies to the adjusted gross income on your 1988 Form 1040, line 32, or Form 1040A, line 14. Enter the result. (You must also complete Part I, and attach a statement. See the Instructions.)	13	-0	-
14	Add amounts on lines 12 and 13. See the Instructions for the amount of credit you can claim	14	522	00

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2441** (1989)

Worksheet (Keep for your records.)

1. Enter the amount from Form 1040, line 23 10,500

(Add to line 1 any tax-exempt interest from private activity bonds issued after August 7, 1986, and any net operating loss deduction.)

2. Enter: $30,000 if single or head of household; $40,000 if married filing jointly; or $20,000 if married filing separately . . 30,000

3. Subtract line 2 from line 1. If the result is zero or less, **STOP HERE** and enter on Form 1040, line 41, the amount of your credit shown on line 14 of Form 2441. Otherwise, go on to line 4 . -0-

4. Enter the amount from Form 1040, line 40 . . . . ________

5. Multiply line 3 by .21 (21%) . . ________

6. Subtract line 5 from line 4 (if zero or less, enter zero) . . . . . . ________

Compare line 6 of the worksheet with the amount of credit shown on Form 2441, line 14.

- **If line 6 (above) is more than your credit,** you do not have to complete Form 6251. Enter on Form 1040, line 41, the amount of your credit shown on Form 2441, line 14.
- **If your credit is more than the amount on line 6 (above),** get Form 6251 and complete it through line 15. Then figure the limit on your credit as follows:

A. Enter amount from Form 1040, line 40 . . . . ________

B. Enter the amount from Form 6251, line 15 . . . . ________

C. Maximum credit. Subtract line B from line A (if zero or less, enter zero) . . . . ________

Compare the credit you first figured on line 14 of Form 2441 with line C above. Enter the **smaller** of the two amounts on line 14 of Form 2441, and on Form 1040, line 41. If line C above is the smaller amount, also write "AMT" in the left margin next to line 41.

Exercise

Sam and Sue Ross need help with their child care credit. Because the Rosses had heavy medical expenses, they itemize on Schedule A, Form 1040. Their total income, Form 1040, line 23, and their adjusted gross income is $27,000. Sam earned $17,000 and Sue earned $10,000. Sam's social security number is 987-00-6543 and Sue's number is 123-00-6689. Their children, Mike and Mary, lived with them all year. Mike was born on September 20, 1979, and Mary was born on June 10, 1981. All year, both children attended Duval Day Care Center after school. In 1989, the Rosses' child care expenses totaled $3,190, of which they paid $2,000 and Sue's employer paid $1,190. They do not claim any other credits. Prepare the Rosses' Form 2441 (Exhibit 3).

Exhibit 3

Form **2441**

Department of the Treasury
Internal Revenue Service

Child and Dependent Care Expenses

▶ **Attach to Form 1040.**
▶ **See separate Instructions.**

OMB No. 1545-0068

1989

Attachment
Sequence No. **23**

Name(s) as shown on Form 1040

Your social security number

- If you are claiming the child and dependent care credit, complete Parts I and II below. But if you received employer-provided dependent care benefits, first complete Part III on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete Part I, below, and Part III on the back.

Part I **Persons or Organizations Who Provided the Care—You must complete this part.** (See the Instructions. If more space is needed, attach a statement.)

1 **(a)** Name	**(b)** Address (number, street, city, state, and ZIP code)	(c) Identification number (SSN or EIN)	**(d)** Amount paid (see Instructions)

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2 Add the amounts in column (d) of line 1 and enter the total 2

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* ***Form 942*** *for details.*

Part II **Credit for Child and Dependent Care Expenses**

3 Enter number of qualifying persons who were cared for in 1989. (See the Instructions for definition of qualifying persons.) **Caution:** *To qualify, the person(s)* ***must*** *have shared the same home with you in 1989* ▶ 3

4 Enter the amount of **qualified** expenses you incurred and actually paid in 1989 for the care of the qualifying person. (See **What Are Qualified Expenses?** in the Instructions.) **Do not enter more than** $2,400 ($4,800 if you paid for the care of two or more qualifying persons) 4

5 Enter the **excluded amount,** if any, from line 21 on page 2 5

6 Subtract line 5 from line 4 and enter the result. If the result is zero or less, stop here. You **cannot** claim the credit 6

7 You **must** enter your **earned income.** (See the Instructions for definition of earned income.) 7

8 If you are married filing a joint return, you **must** enter your spouse's earned income. (If your spouse was a full-time student or disabled, see the Instructions for the amount to enter.) 8

9 If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here 9

10
- If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here.
- All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here 10

11 Enter decimal amount from table below that applies to the adjusted gross income on Form 1040, line 32 11 ×

If line 32 is: Over—	But not over—	**Decimal amount is:**	**If line 32 is:** Over—	But not over—	**Decimal amount is:**
$0	10,000	.30	$20,000	22,000	.24
10,000	12,000	.29	22,000	24,000	.23
12,000	14,000	.28	24,000	26,000	.22
14,000	16,000	.27	26,000	28,000	.21
16,000	18,000	.26	28,000		.20
18,000	20,000	.25			

12 Multiply the amount on line 10 by the decimal amount on line 11, and enter the result 12

13 Multiply any child and dependent care expenses for 1988 that you paid in 1989 by the percentage that applies to the adjusted gross income on your 1988 Form 1040, line 32, or Form 1040A, line 14. Enter the result. (You must also complete Part I, and attach a statement. See the Instructions.) 13

14 Add amounts on lines 12 and 13. See the Instructions for the amount of credit you can claim 14

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2441** (1989)

Credit for the Elderly or the Disabled

Both elderly persons and persons who are permanently and totally disabled can claim a special credit on Form 1040. To be eligible for the credit, taxpayers must either be 65 or over by the end of the tax year or be retired on permanent and total disability by the end of the year. All eligible taxpayers figure the credit on Schedule R. This credit is covered in Module IV, Lesson 5.

Mortgage Interest Credit

There is a credit available to taxpayers who are issued qualified mortgage credit certificates under a qualified state or local program. The certificate must be for the taxpayer's principal residence. The credit may not be claimed if the interest is paid to certain related persons.

The credit is figured on Form 8396, *Mortgage Interest Credit.* The credit is included in the total on line 46 of Form 1040 with "MIC" written on the dotted line next to the amount.

Taxpayers who claim this credit must reduce the amount of mortgage interest that they claim on Schedule A, Form 1040, by the amount of the credit.

* **Note:** After December 31, 1989, state and local governments' authority to create new programs under which mortgage credit certificates may be issued is scheduled to end.

See Form 8396 and its instructions and Publication 530, *Tax Information for Homeowners,* for more information on this credit.

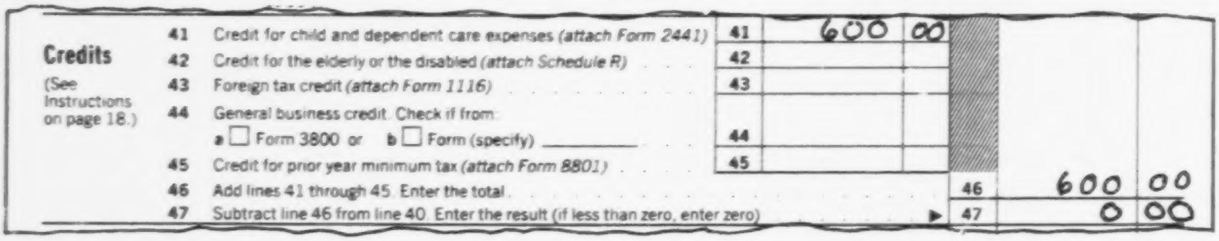
Credit Limitation

The credits described here are nonrefundable credits. That is, the total of these credits cannot exceed the tax liability on line 40, Form 1040.

Example

Jim and Gail Wood have a tax liability of $300 and child care credit of $600. They would list their child care credit as shown in Exhibit 5.

Exhibit 5



Credits (See Instructions on page 18.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41	600 00		
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42			
	43	Foreign tax credit *(attach Form 1116)*	43			
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ________	44			
	45	Credit for prior year minimum tax *(attach Form 8801)*	45			
	46	Add lines 41 through 45. Enter the total			46	600 00
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶			47	0 00

Since the credit at least equals the total tax, zero would be shown on line 47, Form 1040. The remainder of the credit can never be used.

Summary

Taxpayers can claim several credits in the *Credits* section of Form 1040. As a VITA volunteer, you will help taxpayers determine when they qualify, and how much they may claim, for the:

1. Credit for child and dependent care expenses.
2. Credit for the elderly or the disabled.

You will also be able to recommend publications that taxpayers should order if they have questions about other credits.

Answer to Exercise

The credit is $420. See filled-in Exhibit 3.

best copy available

Exhibit 3, filled-in

Form **2441**
Department of the Treasury
Internal Revenue Service

Child and Dependent Care Expenses

▶ **Attach to Form 1040.**
▶ **See separate Instructions.**

OMB No. 1545-0068
1989
Attachment Sequence No. **23**

Name(s) as shown on Form 1040: SAm AND SUE ROSS

Your social security number: 987 00 6543

- If you are claiming the child and dependent care credit, complete Parts I and II below. But if you received employer-provided dependent care benefits, first complete Part III on the back.
- If you are not claiming the credit but you received employer-provided dependent care benefits, only complete Part I, below, and Part III on the back.

Part I **Persons or Organizations Who Provided the Care—You must complete this part.** (See the Instructions. If more space is needed, attach a statement.)

1 (a) Name	(b) Address (number, street, city, state, and ZIP code)	(c) Identification number (SSN or EIN)	(d) Amount paid (see Instructions)	
DUVAL DAY CARE CENTER	496 White ROAD DUVAL City, FL 33130	10-4487965	4190	00

PROOF COPY

2 Add the amounts in column (d) of line 1 and enter the total . . . 2 4,190 00

Note: *If you paid cash wages of $50 or more in a calendar quarter to an individual for services performed in your home, you must file an employment tax return. Get* **Form 942** *for details.*

Part II **Credit for Child and Dependent Care Expenses**

3 Enter number of qualifying persons who were cared for in 1989. (See the Instructions for definition of qualifying persons.) **Caution:** *To qualify, the person(s)* **must** *have shared the same home with you in 1989* ▶ 3 2

4 Enter the amount of **qualified** expenses you incurred and actually paid in 1989 for the care of the qualifying person. (See **What Are Qualified Expenses?** in the Instructions.) **Do not enter more than** $2,400 ($4,800 if you paid for the care of two or more qualifying persons) . . . 4 3,190 00

5 Enter the **excluded amount,** if any, from line 21 on page 2 . . . 5 1,190 00

6 Subtract line 5 from line 4 and enter the result. If the result is zero or less, stop here. You **cannot** claim the credit . . . 6 2,000 00

7 You **must** enter your **earned income.** (See the Instructions for definition of earned income.) . . . 7 17,000 00

8 If you are married filing a joint return, you **must** enter your spouse's earned income. (If your spouse was a full-time student or disabled, see the Instructions for the amount to enter.) . . . 8 10,000 00

9 If you are married filing a joint return, compare the amounts on lines 7 and 8. Enter the **smaller** of the two amounts here . . . 9 10,000 00

10 • If you are married filing a joint return, compare the amounts on lines 6 and 9. Enter the **smaller** of the two amounts here.
• All others, compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here. } 10 2,000 00

11 Enter decimal amount from table below that applies to the adjusted gross income on Form 1040, line 32 . . . 11 x .21

If line 32 is: Over—	But not over—	Decimal amount is:	If line 32 is: Over—	But not over—	Decimal amount is:
$0	10,000	.30	$20,000	22,000	.24
10,000	12,000	.29	22,000	24,000	.23
12,000	14,000	.28	24,000	26,000	.22
14,000	16,000	.27	26,000	28,000	.21
16,000	18,000	.26	28,000		.20
18,000	20,000	.25			

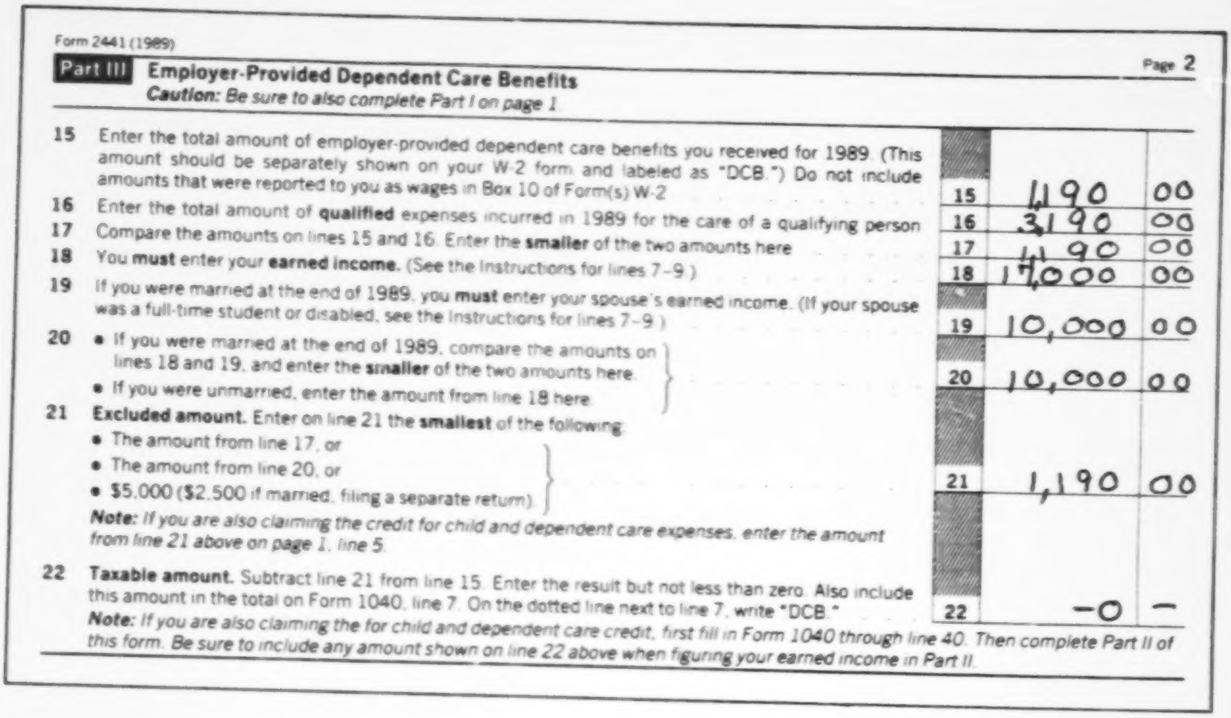
12 Multiply the amount on line 10 by the decimal amount on line 11, and enter the result . . . 12 420 00

13 Multiply any child and dependent care expenses for 1988 that you paid in 1989 by the percentage that applies to the adjusted gross income on your 1988 Form 1040, line 32, or Form 1040A, line 14. Enter the result. (You must also complete Part I, and attach a statement. See the Instructions.) . . . 13 -0 -

14 Add amounts on lines 12 and 13. See the Instructions for the amount of credit you can claim . . . 14 420 00

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2441** (1989)



Form 2441 (1989) Page **2**

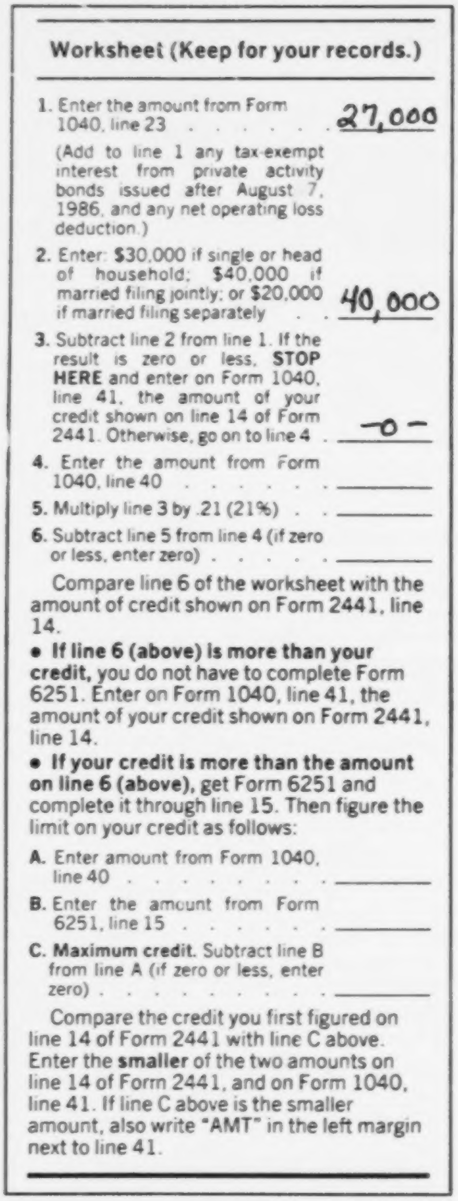
Part III **Employer-Provided Dependent Care Benefits**

Caution: *Be sure to also complete Part I on page 1*

15	Enter the total amount of employer-provided dependent care benefits you received for 1989. (This amount should be separately shown on your W-2 form and labeled as "DCB.") Do not include amounts that were reported to you as wages in Box 10 of Form(s) W-2	15	1190	00
16	Enter the total amount of **qualified** expenses incurred in 1989 for the care of a qualifying person	16	3190	00
17	Compare the amounts on lines 15 and 16. Enter the **smaller** of the two amounts here	17	1190	00
18	You **must** enter your **earned income.** (See the Instructions for lines 7–9.)	18	17,000	00
19	If you were married at the end of 1989, you **must** enter your spouse's earned income. (If your spouse was a full-time student or disabled, see the Instructions for lines 7–9.)	19	10,000	00
20	• If you were married at the end of 1989, compare the amounts on lines 18 and 19, and enter the **smaller** of the two amounts here. • If you were unmarried, enter the amount from line 18 here.	20	10,000	00
21	**Excluded amount.** Enter on line 21 the **smallest** of the following: • The amount from line 17, or • The amount from line 20, or • $5,000 ($2,500 if married, filing a separate return). ***Note:*** *If you are also claiming the credit for child and dependent care expenses, enter the amount from line 21 above on page 1, line 5.*	21	1,190	00
22	**Taxable amount.** Subtract line 21 from line 15. Enter the result but not less than zero. Also include this amount in the total on Form 1040, line 7. On the dotted line next to line 7, write "DCB."	22	-0	–

Note: *If you are also claiming the for child and dependent care credit, first fill in Form 1040 through line 40. Then complete Part II of this form. Be sure to include any amount shown on line 22 above when figuring your earned income in Part II.*

Exhibit 4, filled-in



Worksheet (Keep for your records.)

1. Enter the amount from Form 1040, line 23 27,000

(Add to line 1 any tax-exempt interest from private activity bonds issued after August 7, 1986, and any net operating loss deduction.)

2. Enter: $30,000 if single or head of household; $40,000 if married filing jointly; or $20,000 if married filing separately . . . 40,000

3. Subtract line 2 from line 1. If the result is zero or less, **STOP HERE** and enter on Form 1040, line 41, the amount of your credit shown on line 14 of Form 2441. Otherwise, go on to line 4 . -0-

4. Enter the amount from Form 1040, line 40 . . . . ______

5. Multiply line 3 by .21 (21%) . . ______

6. Subtract line 5 from line 4 (if zero or less, enter zero) . . . . . ______

Compare line 6 of the worksheet with the amount of credit shown on Form 2441, line 14.

- **If line 6 (above) is more than your credit,** you do not have to complete Form 6251. Enter on Form 1040, line 41, the amount of your credit shown on Form 2441, line 14.
- **If your credit is more than the amount on line 6 (above),** get Form 6251 and complete it through line 15. Then figure the limit on your credit as follows:

A. Enter amount from Form 1040, line 40 . . . . ______

B. Enter the amount from Form 6251, line 15 . . . . ______

C. Maximum credit. Subtract line B from line A (if zero or less, enter zero) . . . . ______

Compare the credit you first figured on line 14 of Form 2441 with line C above. Enter the **smaller** of the two amounts on line 14 of Form 2441, and on Form 1040, line 41. If line C above is the smaller amount, also write "AMT" in the left margin next to line 41.

Lesson 8

Advance Earned Income Credit

Objectives

At the end of this lesson you will be able to:

1. Identify the advance earned income credit payment shown on Form W-2, *Wage and Tax Statement.*
2. Report advance earned income credit payment on Form 1040.

Contents

Introduction

Determining If Credit Was Paid

Summary

Answers to Exercises

Introduction

At this point the only other item you will need to identify and enter on Form 1040 is the advance earned income credit payment. If you discover that a taxpayer has other taxes, such as self-employment tax, alternative minimum tax, tax from recapture of investment credit, social security or railroad retirement (RRTA) tax on reported and unreported tip income, or tax on an IRA (early distributions, excess payments, or excess accumulations), refer that taxpayer to a professional tax preparer.

Determining if Credit Was Paid

You may help people who received advance earned income credit payments. These individuals have filed Form W-5, *Earned Income Credit Advance Payment Certificate,* with an employer. These employees would have received some earned income credit payment during the year in their paychecks. They ***must*** file Form 1040A or Form 1040, even if they are not otherwise required to file an income tax return.

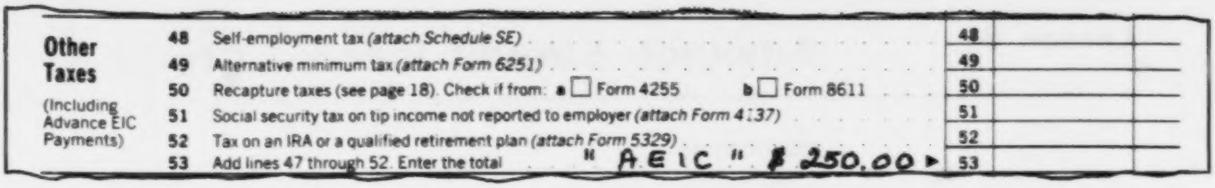
Look at each Form W-2 to see if the advance earned income credit was paid to the individual. It is shown in box 7. On the dotted line next to the total tax (line 53, Form 1040) write in "AEIC" and show the amount from box 7. Include the advance earned income credit from all Forms W-2 in the total tax on Form 1040, line 53.

You will also have to determine whether the person qualifies for the earned income credit (discussed in Lesson 9, following). Enter the correct credit on Form 1040, line 58.

Example

Barry Richmond's Form W-2 shows $250 advance earned income credit. You would write "AEIC" and $250 on the dotted line next to line 53, Form 1040 (see Exhibits 1 and 2). Barry has a dependent child living with him. He files as head of household.

Exhibit 1



Other Taxes

(Including Advance EIC Payments)

48 Self-employment tax *(attach Schedule SE)* 48

49 Alternative minimum tax *(attach Form 6251)* 49

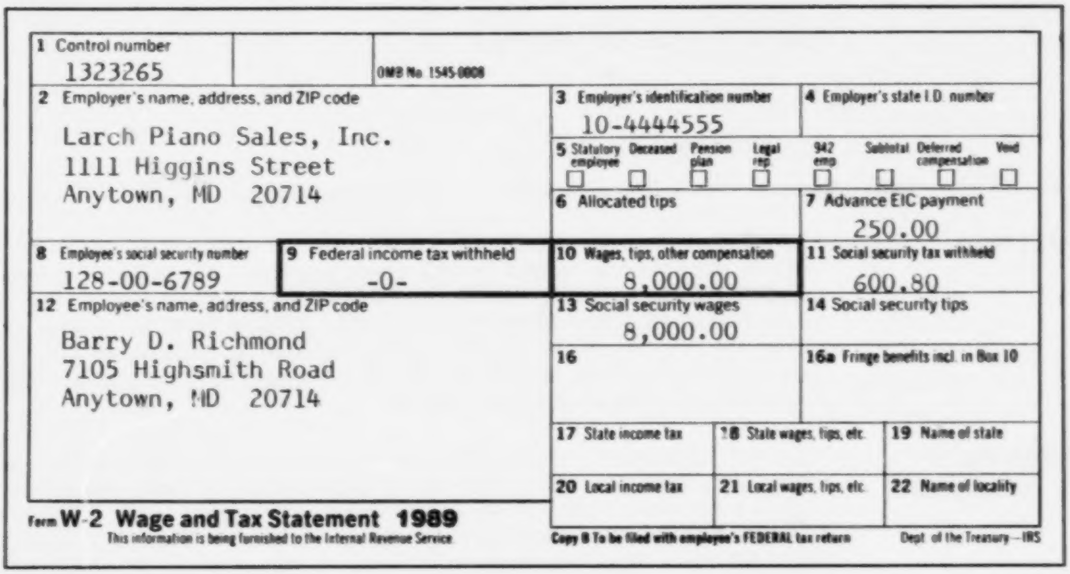
50 Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611 . . . 50

51 Social security tax on tip income not reported to employer *(attach Form 4137)* 51

52 Tax on an IRA or a qualified retirement plan *(attach Form 5329)* 52

53 Add lines 47 through 52. Enter the total . . " AEIC " $ 250.00 ▶ 53

Exhibit 2



1 Control number
1323265

OMB No. 1545-0008

2 Employer's name, address, and ZIP code
Larch Piano Sales, Inc.
1111 Higgins Street
Anytown, MD 20714

3 Employer's identification number
10-4444555

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment
250.00

8 Employee's social security number
128-00-6789

9 Federal income tax withheld
-0-

10 Wages, tips, other compensation
8,000.00

11 Social security tax withheld
600.80

12 Employee's name, address, and ZIP code
Barry D. Richmond
7105 Highsmith Road
Anytown, MD 20714

13 Social security wages
8,000.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service

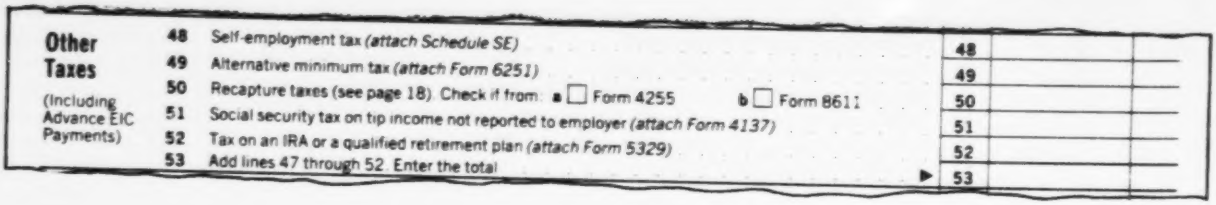
Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exercise 1

Ann Adair has wages of $7,500, no federal income tax was withheld from her salary during the year. Her advance earned income credit payment is $325. You have already determined that Ann is eligible for the child care credit and the earned income credit. Fill out the *Other Taxes* section of Form 1040 using this information (Exhibit 3).

Exhibit 3

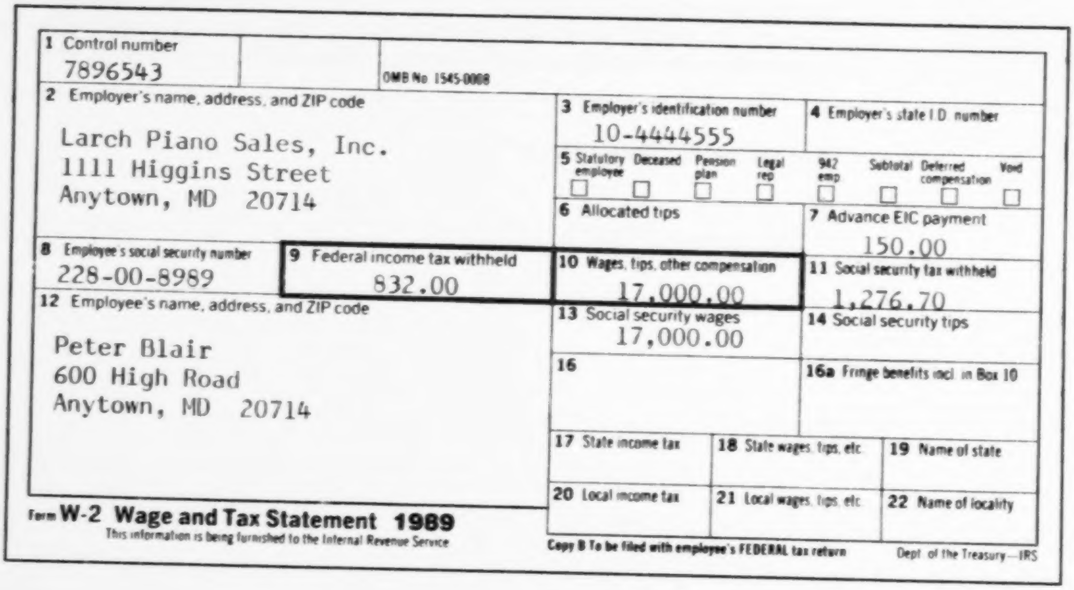


Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*	48		
	49	Alternative minimum tax *(attach Form 6251)*	49		
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611	50		
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*	51		
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*	52		
	53	Add lines 47 through 52. Enter the total ▶	53		

Exercise 2

This is Peter Blair's Form W-2 (Exhibit 4). Peter is married, files a joint return, and has a dependent child aged 8. Enter his advance earned income credit payment on his Form 1040 (Exhibit 5).

Exhibit 4



1 Control number
7896543

OMB No. 1545-0008

2 Employer's name, address, and ZIP code
Larch Piano Sales, Inc.
1111 Higgins Street
Anytown, MD 20714

3 Employer's identification number
10-4444555

4 Employer's state I.D. number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment
150.00

8 Employee's social security number
228-00-8989

9 Federal income tax withheld
832.00

10 Wages, tips, other compensation
17,000.00

11 Social security tax withheld
1,276.70

12 Employee's name, address, and ZIP code
Peter Blair
600 High Road
Anytown, MD 20714

13 Social security wages
17,000.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

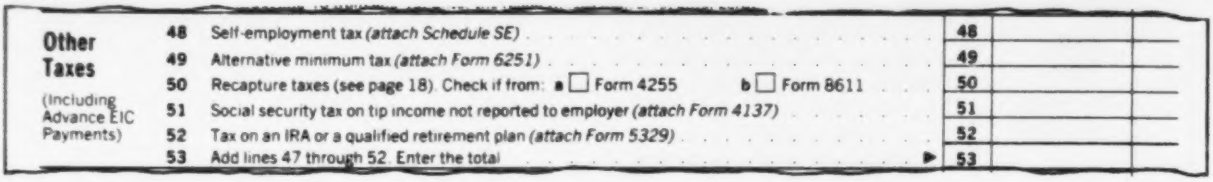
Form **W-2 Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Module III, Lesson 8

Exhibit 5



Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*	48		
	49	Alternative minimum tax *(attach Form 6251)*	49		
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611	50		
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*	51		
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*	52		
	53	Add lines 47 through 52. Enter the total ▶	53		

Summary

Advance earned income credit payments are reported in box 7, Form W-2. If the person you help received an advance earned income credit payment and files Form 1040, write "AEIC" and this amount on line 53 and include the payment in the total tax on line 53. You will need to determine if the taxpayer is eligible for the earned income credit and how much it is. Enter the taxpayer's correct credit on Form 1040, line 58. If other taxes are involved in addition to an advance earned income credit payment, refer the person you are helping to a professional preparer.

Answers to Exercises

1. See filled-in Exhibit 3.
2. See filled-in Exhibit 5.

Exhibit 3, filled-in

Other Taxes	48	Self-employment tax *(attach Schedule SE)*	48	
(Including Advance EIC Payments)	49	Alternative minimum tax *(attach Form 6251)*	49	
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611	50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*	51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*	52	
	53	Add lines 47 through 52. Enter the total "AEIC" $325.00 ▶	53	

Exhibit 5, filled-in

Other Taxes	48	Self-employment tax *(attach Schedule SE)*	48	
(Including Advance EIC Payments)	49	Alternative minimum tax *(attach Form 6251)*	49	
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611	50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*	51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*	52	
	53	Add lines 47 through 52. Enter the total "AEIC" $150.00 ▶	53	

Module III

Lesson 9

Payments

Objectives

At the end of this lesson you will be able to:

1. Identify federal income tax withheld on Form W-2, Form W-2P, Form 1099-INT or Form 1099-DIV and enter the amounts on Form 1040.
2. Enter estimated tax payments on Form 1040.
3. Determine if an individual is eligible for the earned income credit.
4. Figure the earned income credit and enter this amount on Form 1040.

Contents

Introduction

Federal Income Tax Withholding

Estimated Tax Payments

Earned Income Credit

Summary

Answers to Exercises

Introduction

The federal government has a pay-as-you-go tax system. Under this system, most federal income tax is paid in either of two ways. It is withheld directly from wage earners' paychecks or, for income not subject to withholding, estimated tax payments are used to pay the tax. Both types of payments are reported in the *Payments* section of Form 1040.

A refundable credit called the earned income credit is also reported in the *Payments* section. You should be extremely careful when figuring the earned income credit and check your figures, because mistakes are often made in figuring this credit.

As a volunteer, you are responsible for entering amounts only on lines 56, 57, 58, and 60 of the *Payments* section of Form 1040. If you meet taxpayers who have any other payments, refer them to a professional preparer. These are payments involving extensions (Forms 4868 and 2688), credit for tax on gasoline and special fuels, and regulated investment company credit.

Federal Income Tax Withholding

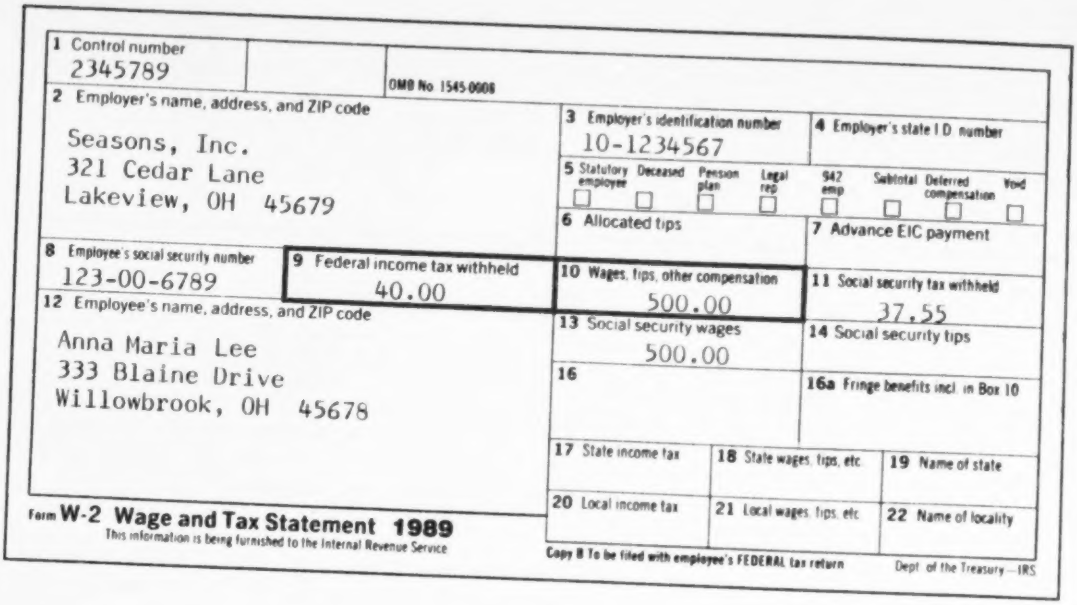
Federal income tax withheld from wages is shown in box 9 of Form W-2. This amount will be entered on line 56 of Form 1040. If a taxpayer has two or more Forms W-2, add the withheld tax from all the Forms W-2 and enter the total on line 56.

If a taxpayer had two or more employers during the year and had income of more than $48,000, he or she may have had too much social security or railroad retirement tax withheld. This excess withholding can be entered as a payment on line 60 of Form 1040. A worksheet is in the instructions for Form 1040 for use in figuring the excess amount.

Exercise 1

Anna Maria Lee is filing Form 1040 for 1989. Look at the following Forms W-2 (Exhibits 1 and 2) and enter the correct amount on line 56 of her Form 1040 (Exhibit 3).

Exhibit 1



1 Control number
2345789

OMB No 1545-0008

2 Employer's name, address, and ZIP code
Seasons, Inc.
321 Cedar Lane
Lakeview, OH 45679

3 Employer's identification number
10-1234567

4 Employer's state I D number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
123-00-6789

9 Federal income tax withheld
40.00

10 Wages, tips, other compensation
500.00

11 Social security tax withheld
37.55

12 Employee's name, address, and ZIP code
Anna Maria Lee
333 Blaine Drive
Willowbrook, OH 45678

13 Social security wages
500.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

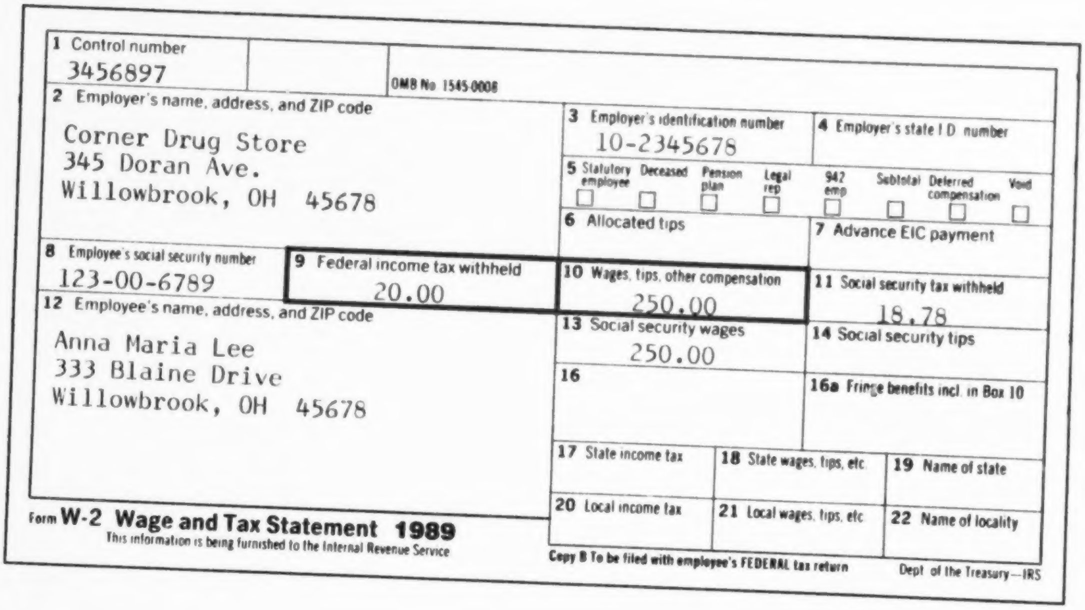
21 Local wages, tips, etc.

22 Name of locality

Form **W-2** **Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return
Dept. of the Treasury—IRS

Exhibit 2



1 Control number
3456897

OMB No 1545-0008

2 Employer's name, address, and ZIP code
Corner Drug Store
345 Doran Ave.
Willowbrook, OH 45678

3 Employer's identification number
10-2345678

4 Employer's state I D number

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number
123-00-6789

9 Federal income tax withheld
20.00

10 Wages, tips, other compensation
250.00

11 Social security tax withheld
18.78

12 Employee's name, address, and ZIP code
Anna Maria Lee
333 Blaine Drive
Willowbrook, OH 45678

13 Social security wages
250.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

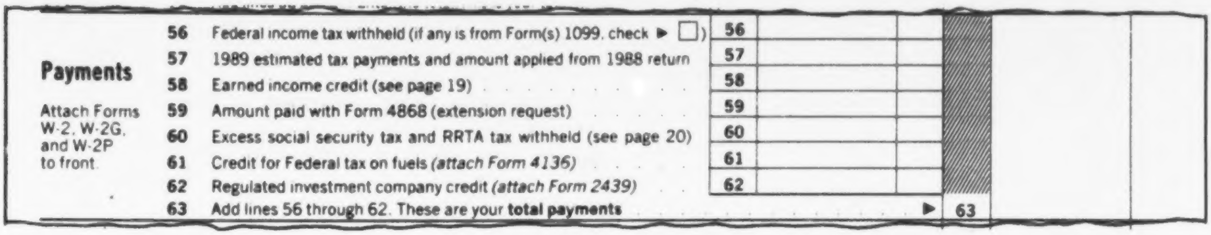
21 Local wages, tips, etc.

22 Name of locality

Form **W-2** **Wage and Tax Statement 1989**
This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return
Dept. of the Treasury—IRS

Exhibit 3



Payments	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56		
	57	1989 estimated tax payments and amount applied from 1988 return	57		
	58	Earned income credit (see page 19)	58		
Attach Forms W-2, W-2G, and W-2P to front.	59	Amount paid with Form 4868 (extension request)	59		
	60	Excess social security tax and RRTA tax withheld (see page 20)	60		
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61		
	62	Regulated investment company credit *(attach Form 2439)*	62		
	63	Add lines 56 through 62. These are your **total payments** ▶			63

Benefits paid from pension plans, annuities, and IRAs are automatically subject to withholding unless the taxpayer chooses otherwise. A taxpayer should fill out a withholding certificate and give it to the payer of the pension, annuity, or IRA distribution. For a more complete discussion, you should refer the taxpayer to Publication 575, *Pension and Annuity Income (Including Simplified General Rule),* or Publication 590, *Individual Retirement Arrangements (IRAs).*

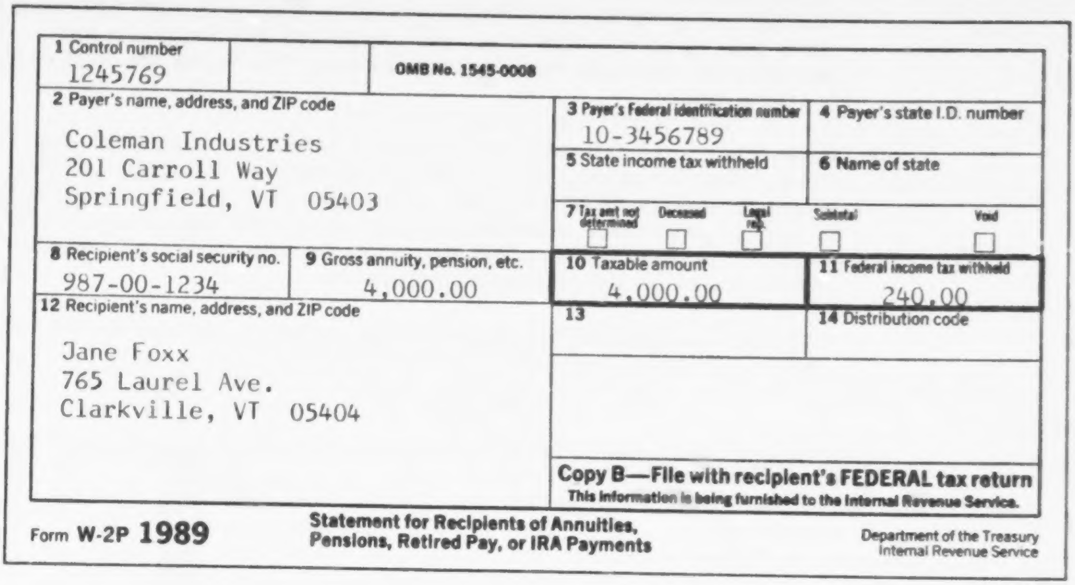
If the taxpayer received benefits during the year from a pension plan, annuity, IRA, etc., the payer should have sent the taxpayer a Form W–2P, *Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.* The withheld federal income tax is shown in box 11. If the taxpayer received more than one kind of benefit, you should add the amounts from all Forms W–2P and enter the total on line 56, Form 1040.

Example

Mrs. Jane Foxx, age 67, received $4,000 in pension benefits during 1989. Her Form W–2P (Exhibit 4) shows that $240 in tax was withheld from the total she received. She enters this amount on line 56, Form 1040. If Mrs. Foxx had more than one Form W–2P, she would add the withheld tax from all of them and enter the total on line 56, Form 1040.

There may also be income tax withheld from dividends, interest income, and other income reported on Form 1099. Volunteers will be working only with dividends (Form 1099–DIV) and interest income (Form 1099–INT). The income tax withheld will be shown in box 4 of Form 1099 and should be included in the total on line 56, Form 1040. Check the box on line 56.

Exhibit 4



1 Control number
1245769

OMB No. 1545-0008

2 Payer's name, address, and ZIP code
Coleman Industries
201 Carroll Way
Springfield, VT 05403

3 Payer's Federal identification number
10-3456789

4 Payer's state I.D. number

5 State income tax withheld

6 Name of state

7 Tax amt not determined ☐ Deceased ☐ Legal rep. ☐ Subtotal ☐ Void ☐

8 Recipient's social security no.
987-00-1234

9 Gross annuity, pension, etc.
4,000.00

10 Taxable amount
4,000.00

11 Federal income tax withheld
240.00

12 Recipient's name, address, and ZIP code
Jane Foxx
765 Laurel Ave.
Clarkville, VT 05404

13

14 Distribution code

Copy B—File with recipient's FEDERAL tax return
This information is being furnished to the Internal Revenue Service.

Form W-2P 1989

Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments

Department of the Treasury
Internal Revenue Service

Estimated Tax Payments

Estimated income tax is paid on income that is not subject to withholding, or on income from which not enough tax is withheld. Estimated tax is the total of the taxpayer's expected tax for the year minus his or her expected withholding and credits.

Taxpayers did not have to pay estimated tax during 1989 if their net liability was less than $500 or if their total payments and credits were at least 90% of their current year's tax liability or 100% of the prior year's tax (whichever is less). They also did not have to pay estimated tax if in 1989 they were not U.S. citizens or residents and they had no tax liability for the full preceding tax year. See Module IV, Lesson 7, for the requirements for filing estimated tax.

Taxpayers will be able to tell you if they made estimated tax payments during the year. They generally have a checkbook register or cancelled checks to show the amount paid. Estimated tax may be paid in four installments; it does not have to be paid all at once. Form 1040–ES, *Estimated Tax for Individuals,* is used to pay the full amount or installments due.

Although the last payment was probably made in 1990, credit for the payment is taken on the 1989 return because this amount applies to the 1989 tax year. This circumstance confuses many taxpayers. The last payment for 1989 estimated tax could be mistaken for a payment of 1990 estimated tax later when the taxpayer receives the cancelled check. Also, if a taxpayer paid the first installment of 1989 estimated tax on or about April 15 and filed a 1988 tax return with a balance due the IRS at the same time, he or she may erroneously credit the 1988 balance due payment as a 1989 estimated tax payment. Always be sure to check the taxpayer's return for last year so that you do not make this error.

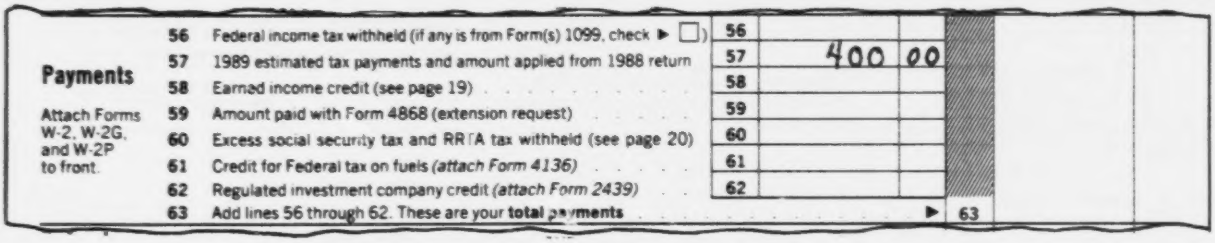
You should also check the taxpayer's prior year return to see if there was an overpayment of tax that was designated to be applied to 1989 estimated tax rather than to be refunded. If so, you should add this amount to the estimated tax payments that were made earlier. Then enter the total on line 57, Form 1040.

Note: You should determine if the taxpayer received a notice from the Service Center indicating that a change was made in the amount of the overpayment from his or her 1988 income tax return that was to be applied to the taxpayer's 1989 estimated tax payments. If the amount was changed, be sure to include the corrected amount in the total on line 57 and not the amount shown on the taxpayer's 1988 return.

Example

If the taxpayer paid $400 in estimated tax, enter the $400 on line 57 of Form 1040, as shown in Exhibit 5.

Exhibit 5



Payments	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56			
	57	1989 estimated tax payments and amount applied from 1988 return	57	400	00	
Attach Forms W-2, W-2G, and W-2P to front.	58	Earned income credit (see page 19)	58			
	59	Amount paid with Form 4868 (extension request)	59			
	60	Excess social security tax and RRTA tax withheld (see page 20)	60			
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61			
	62	Regulated investment company credit *(attach Form 2439)*	62			
	63	Add lines 56 through 62. These are your **total payments** ▶				63

Earned Income Credit

Some taxpayers may be able to claim a ***refundable*** credit of up to $910, even though they may not have to file a tax return and had no federal income tax withheld. In order to claim this credit, however, they must file a federal income tax return. The qualifications for the earned income credit are the same for both Form 1040 and Form 1040A. These qualifications are explained in Module II, Lesson 11. The Form 1040 instructions has the *Earned Income Credit Worksheet* (Exhibit 6) that will help you decide whether the taxpayer can take the credit and, if so, how much it is.

To qualify, the taxpayer must generally:

1. Have earned income and adjusted gross income each less than $19,340,
2. Have some earned income (wages, salaries, tips, etc.),
3. File as head of household, married filing jointly, or qualifying widow(er), and
4. Have a child living with him or her over half the year in the United States (all year for a qualifying widow(er)).

The child of a qualifying widow(er) must be claimed as a dependent on line 6c of Form 1040 or on line 6c of Form 1040A.

The special rules that apply to individuals who are filing as head of household or married filing jointly are listed in Module II, Lesson 11, and in the instructions to Form 1040.

Note: If the taxpayer must file Form 2555, *Foreign Earned Income*, he or she cannot take the earned income credit. The earned income credit must be reduced by the amount of any alternative minimum tax reported on line 49 of Form 1040. If you see any taxpayers who must file Form 2555 or who are liable for the alternative minimum tax, refer them to a professional tax preparer.

Example

Rebecca needs your help in filling out her income tax return. During the interview she tells you the following about herself:

—Single

—Her 7-year-old son, Mario, lived with her all year

—The dependency tests have been met for Mario

—Wages, $8,100

—Interest, $400

—Prize photography contest, $600

—No adjustments to income

—Itemized deductions, no more than $4,550

—Child care expenses, $1,200 paid

—No other credits

—No other taxes.

Note the following facts:

Rebecca's adjusted gross income on Form 1040, line 31, is less than $19,340.

Rebecca has $8,100 earned income.

Rebecca has $9,100 adjusted gross income.

Rebecca's child, Mario, lived with her for over half the year.

Rebecca entered Mario's name and social security number on line 6c, Form 1040.

If Rebecca could not claim Mario as a dependent but had provided over half the cost of maintaining their household, she would still qualify for the credit as a head of household because Mario was unmarried. His name would be entered on Form 1040, line 4.

Rebecca's Earned Income Credit Worksheet showing her earned income credit is shown in Exhibit 6.

Exhibit 6

Earned Income Credit Worksheet (Keep for your records)

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1.	Enter the amount from Form 1040, line 7, plus any other earned income, whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. **Note:** *If you included earned income on line 1 that is not taxable, write "NEI" on the dotted line next to line 58 even if you cannot claim the credit.*	$ 8,100
2.	If you were self-employed, enter the amount, even if a loss, from Schedule SE, Section A, line 3, or Section B, line 3c. But, if you use the optional method to figure your self-employment tax, see **Pub. 596** for more information before entering an amount on line 2. If you included self-employment income on line 1 above, do not include it here.	-0-
3.	**Earned income.** Add lines 1 and 2. But if line 2 is a loss, subtract line 2 from line 1. If line 3 is zero or less, stop here; you **cannot** take the credit. If line 3 is more than zero, go on to line 4.	8,100
4.	**Adjusted gross income.** Enter the amount from Form 1040, line 32. If this amount is $19,340 or more, stop here; you **cannot** take the credit. Otherwise, go on to line 5 or line 6, whichever applies.	9,100
5.	If line 4 is **less than $10,250,** use the amount on line 3 to find the credit in the table that begins on page 52. Enter the credit here and on Form 1040, line 58.	910
6.	If line 4 is **$10,250** or more:	▨
	a. First, use the amount on line 3 to find the credit that begins on page 52. Enter that amount here. $ ________	▨
	b. Then, use the amount on line 4 to find the credit in the table. Enter that amount here. $ ________	▨
	c. Compare the amounts on lines **6a** and **6b** above. Enter the **smaller** of the two amounts here. Also enter this amount on Form 1040, line 58.	$

Exercise 2

a. Melissa needs your help in preparing her Form 1040. During the interview she gives you the following information:

—Single, has own apartment

—The five dependency tests have been met for her mother

—Mother lives with her

—Wages, $8,500

—Won a grocery store sweepstakes prize, $100

—No other income

—No adjustments to income

—Does not have enough deductions to itemize

—No credits

—No other taxes

(1) Is the amount on Form 1040, line 31, less than $19,340? _____

(2) Does the amount on Form 1040, line 31, include wages or other earned income? _____

(3) Does Melissa claim a child as a dependent? _____

(4) What is Melissa's filing status? _____

(5) Can Melissa take the earned income credit? _____

b. Sam is divorced and paid over half of the total support for his son, Philip. Philip lived with his mother all year.

(1) What is Sam's filing status? _____

(2) Can Sam claim the earned income credit? _____

c. John is filing as head of household, is claiming his 6-year-old son, Percy, who lived with him all year, and has earned income and adjusted gross income under $19,340. Does he qualify for the earned income credit? _____

d. Assume the same facts as in (c) above, except that John is excluding income he earned in a foreign country. Can John claim the earned income credit? _____

How to Figure the Earned Income Credit

The earned income credit is figured on the worksheet found in either the Form 1040 instructions or the Form 1040A instructions, along with the *Earned Income Credit Table,* which is also found in the forms instructions. The table shown as Exhibit 7 is for Form 1040.

Exhibit 7

1989 Earned Income Credit Table

Caution: *This Is Not A Tax Table*

To find your earned income credit: Read down the column titled "If line 3 or 4 of the worksheet is—" and find the appropriate amount from the Earned Income Credit Worksheet on page 20. Read across to the right and find the amount of the income credit. Enter that amount on line 5 or 6 of the worksheet, whichever applies.

If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—
At least	But less than		At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$1	$25	$2	$1,600	$1,625	$226	$3,200	$3,225	$450	$4,800	$4,825	$674	$6,400	$6,425	$898
25	50	5	1,625	1,650	229	3,225	3,250	453	4,825	4,850	677	6,425	6,450	901
50	75	9	1,650	1,675	233	3,250	3,275	457	4,850	4,875	681	6,450	6,475	905
75	100	12	1,675	1,700	236	3,275	3,300	460	4,875	4,900	684	6,475	6,500	908
100	125	16	1,700	1,725	240	3,300	3,325	464	4,900	4,925	688	6,500	10,250	910
125	150	19	1,725	1,750	243	3,325	3,350	467	4,925	4,950	691	10,250	10,275	908
150	175	23	1,750	1,775	247	3,350	3,375	471	4,950	4,975	695	10,275	10,300	905
175	200	26	1,775	1,800	250	3,375	3,400	474	4,975	5,000	698	10,300	10,325	903
200	225	30	1,800	1,825	254	3,400	3,425	478	5,000	5,025	702	10,325	10,350	900
225	250	33	1,825	1,850	257	3,425	3,450	481	5,025	5,050	705	10,350	10,375	898
250	275	37	1,850	1,875	261	3,450	3,475	485	5,050	5,075	709	10,375	10,400	895
275	300	40	1,875	1,900	264	3,475	3,500	488	5,075	5,100	712	10,400	10,425	893
300	325	44	1,900	1,925	268	3,500	3,525	492	5,100	5,125	716	10,425	10,450	890
325	350	47	1,925	1,950	271	3,525	3,550	495	5,125	5,150	719	10,450	10,475	888
350	375	51	1,950	1,975	275	3,550	3,575	499	5,150	5,175	723	10,475	10,500	885
375	400	54	1,975	2,000	278	3,575	3,600	502	5,175	5,200	726	10,500	10,525	883
400	425	58	2,000	2,025	282	3,600	3,625	506	5,200	5,225	730	10,525	10,550	880
425	450	61	2,025	2,050	285	3,625	3,650	509	5,225	5,250	733	10,550	10,575	878
450	475	65	2,050	2,075	289	3,650	3,675	513	5,250	5,275	737	10,575	10,600	875
475	500	68	2,075	2,100	292	3,675	3,700	516	5,275	5,300	740	10,600	10,625	873
500	525	72	2,100	2,125	296	3,700	3,725	520	5,300	5,325	744	10,625	10,650	870
525	550	75	2,125	2,150	299	3,725	3,750	523	5,325	5,350	747	10,650	10,675	868
550	575	79	2,150	2,175	303	3,750	3,775	527	5,350	5,375	751	10,675	10,700	865
575	600	82	2,175	2,200	306	3,775	3,800	530	5,375	5,400	754	10,700	10,725	863
600	625	86	2,200	2,225	310	3,800	3,825	534	5,400	5,425	758	10,725	10,750	860
625	650	89	2,225	2,250	313	3,825	3,850	537	5,425	5,450	761	10,750	10,775	858
650	675	93	2,250	2,275	317	3,850	3,875	541	5,450	5,475	765	10,775	10,800	855
675	700	96	2,275	2,300	320	3,875	3,900	544	5,475	5,500	768	10,800	10,825	853
700	725	100	2,300	2,325	324	3,900	3,925	548	5,500	5,525	772	10,825	10,850	850
725	750	103	2,325	2,350	327	3,925	3,950	551	5,525	5,550	775	10,850	10,875	848
750	775	107	2,350	2,375	331	3,950	3,975	555	5,550	5,575	779	10,875	10,900	845
775	800	110	2,375	2,400	334	3,975	4,000	558	5,575	5,600	782	10,900	10,925	843
800	825	114	2,400	2,425	338	4,000	4,025	562	5,600	5,625	786	10,925	10,950	840
825	850	117	2,425	2,450	341	4,025	4,050	565	5,625	5,650	789	10,950	10,975	838
850	875	121	2,450	2,475	345	4,050	4,075	569	5,650	5,675	793	10,975	11,000	835
875	900	124	2,475	2,500	348	4,075	4,100	572	5,675	5,700	796	11,000	11,025	833
900	925	128	2,500	2,525	352	4,100	4,125	576	5,700	5,725	800	11,025	11,050	830
925	950	131	2,525	2,550	355	4,125	4,150	579	5,725	5,750	803	11,050	11,075	828
950	975	135	2,550	2,575	359	4,150	4,175	583	5,750	5,775	807	11,075	11,100	825
975	1,000	138	2,575	2,600	362	4,175	4,200	586	5,775	5,800	810	11,100	11,125	823
1,000	1,025	142	2,600	2,625	366	4,200	4,225	590	5,800	5,825	814	11,125	11,150	820
1,025	1,050	145	2,625	2,650	369	4,225	4,250	593	5,825	5,850	817	11,150	11,175	818
1,050	1,075	149	2,650	2,675	373	4,250	4,275	597	5,850	5,875	821	11,175	11,200	815
1,075	1,100	152	2,675	2,700	376	4,275	4,300	600	5,875	5,900	824	11,200	11,225	813
1,100	1,125	156	2,700	2,725	380	4,300	4,325	604	5,900	5,925	828	11,225	11,250	810
1,125	1,150	159	2,725	2,750	383	4,325	4,350	607	5,925	5,950	831	11,250	11,275	808
1,150	1,175	163	2,750	2,775	387	4,350	4,375	611	5,950	5,975	835	11,275	11,300	805
1,175	1,200	166	2,775	2,800	390	4,375	4,400	614	5,975	6,000	838	11,300	11,325	803
1,200	1,225	170	2,800	2,825	394	4,400	4,425	618	6,000	6,025	842	11,325	11,350	800
1,225	1,250	173	2,825	2,850	397	4,425	4,450	621	6,025	6,050	845	11,350	11,375	798
1,250	1,275	177	2,850	2,875	401	4,450	4,475	625	6,050	6,075	849	11,375	11,400	795
1,275	1,300	180	2,875	2,900	404	4,475	4,500	628	6,075	6,100	852	11,400	11,425	793
1,300	1,325	184	2,900	2,925	408	4,500	4,525	632	6,100	6,125	856	11,425	11,450	790
1,325	1,350	187	2,925	2,950	411	4,525	4,550	635	6,125	6,150	859	11,450	11,475	788
1,350	1,375	191	2,950	2,975	415	4,550	4,575	639	6,150	6,175	863	11,475	11,500	785
1,375	1,400	194	2,975	3,000	418	4,575	4,600	642	6,175	6,200	866	11,500	11,525	783
1,400	1,425	198	3,000	3,025	422	4,600	4,625	646	6,200	6,225	870	11,525	11,550	780
1,425	1,450	201	3,025	3,050	425	4,625	4,650	649	6,225	6,250	873	11,550	11,575	778
1,450	1,475	205	3,050	3,075	429	4,650	4,675	653	6,250	6,275	877	11,575	11,600	775
1,475	1,500	208	3,075	3,100	432	4,675	4,700	656	6,275	6,300	880	11,600	11,625	773
1,500	1,525	212	3,100	3,125	436	4,700	4,725	660	6,300	6,325	884	11,625	11,650	770
1,525	1,550	215	3,125	3,150	439	4,725	4,750	663	6,325	6,350	887	11,650	11,675	768
1,550	1,575	219	3,150	3,175	443	4,750	4,775	667	6,350	6,375	891	11,675	11,700	765
1,575	1,600	222	3,175	3,200	446	4,775	4,800	670	6,375	6,400	894	11,700	11,725	763

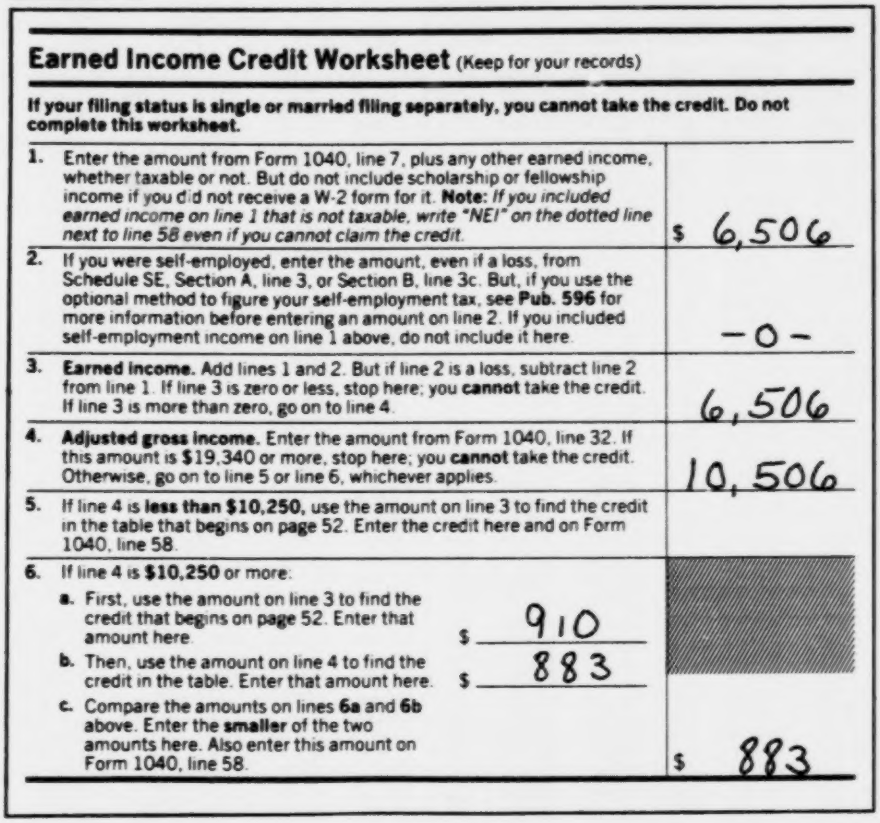
1989 Earned Income Credit Table *(continued)*

If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—
At least	But less than		At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$11,725	$11,750	$760	$13,325	$13,350	$600	$14,925	$14,950	$440	$16,525	$16,550	$280	$18,125	$18,150	$120
11,750	11,775	758	13,350	13,375	598	14,950	14,975	438	16,550	16,575	278	18,150	18,175	118
11,775	11,800	755	13,375	13,400	595	14,975	15,000	435	16,575	16,600	275	18,175	18,200	115
11,800	11,825	753	13,400	13,425	593	15,000	15,025	433	16,600	16,625	273	18,200	18,225	113
11,825	11,850	750	13,425	13,450	590	15,025	15,050	430	16,625	16,650	270	18,225	18,250	110
11,850	11,875	748	13,450	13,475	588	15,050	15,075	428	16,650	16,675	268	18,250	18,275	108
11,875	11,900	745	13,475	13,500	585	15,075	15,100	425	16,675	16,700	265	18,275	18,300	105
11,900	11,925	743	13,500	13,525	583	15,100	15,125	423	16,700	16,725	263	18,300	18,325	103
11,925	11,950	740	13,525	13,550	580	15,125	15,150	420	16,725	16,750	260	18,325	18,350	100
11,950	11,975	738	13,550	13,575	578	15,150	15,175	418	16,750	16,775	258	18,350	18,375	98
11,975	12,000	735	13,575	13,600	575	15,175	15,200	415	16,775	16,800	255	18,375	18,400	95
12,000	12,025	733	13,600	13,625	573	15,200	15,225	413	16,800	16,825	253	18,400	18,425	93
12,025	12,050	730	13,625	13,650	570	15,225	15,250	410	16,825	16,850	250	18,425	18,450	90
12,050	12,075	728	13,650	13,675	568	15,250	15,275	408	16,850	16,875	248	18,450	18,475	88
12,075	12,100	725	13,675	13,700	565	15,275	15,300	405	16,875	16,900	245	18,475	18,500	85
12,100	12,125	723	13,700	13,725	563	15,300	15,325	403	16,900	16,925	243	18,500	18,525	83
12,125	12,150	720	13,725	13,750	560	15,325	15,350	400	16,925	16,950	240	18,525	18,550	80
12,150	12,175	718	13,750	13,775	558	15,350	15,375	398	16,950	16,975	238	18,550	18,575	78
12,175	12,200	715	13,775	13,800	555	15,375	15,400	395	16,975	17,000	235	18,575	18,600	75
12,200	12,225	713	13,800	13,825	553	15,400	15,425	393	17,000	17,025	233	18,600	18,625	73
12,225	12,250	710	13,825	13,850	550	15,425	15,450	390	17,025	17,050	230	18,625	18,650	70
12,250	12,275	708	13,850	13,875	548	15,450	15,475	388	17,050	17,075	228	18,650	18,675	68
12,275	12,300	705	13,875	13,900	545	15,475	15,500	385	17,075	17,100	225	18,675	18,700	65
12,300	12,325	703	13,900	13,925	543	15,500	15,525	383	17,100	17,125	223	18,700	18,725	63
12,325	12,350	700	13,925	13,950	540	15,525	15,550	380	17,125	17,150	220	18,725	18,750	60
12,350	12,375	698	13,950	13,975	538	15,550	15,575	378	17,150	17,175	218	18,750	18,775	58
12,375	12,400	695	13,975	14,000	535	15,575	15,600	375	17,175	17,200	215	18,775	18,800	55
12,400	12,425	693	14,000	14,025	533	15,600	15,625	373	17,200	17,225	213	18,800	18,825	53
12,425	12,450	690	14,025	14,050	530	15,625	15,650	370	17,225	17,250	210	18,825	18,850	50
12,450	12,475	688	14,050	14,075	528	15,650	15,675	368	17,250	17,275	208	18,850	18,875	48
12,475	12,500	685	14,075	14,100	525	15,675	15,700	365	17,275	17,300	205	18,875	18,900	45
12,500	12,525	683	14,100	14,125	523	15,700	15,725	363	17,300	17,325	203	18,900	18,925	43
12,525	12,550	680	14,125	14,150	520	15,725	15,750	360	17,325	17,350	200	18,925	18,950	40
12,550	12,575	678	14,150	14,175	518	15,750	15,775	358	17,350	17,375	198	18,950	18,975	38
12,575	12,600	675	14,175	14,200	515	15,775	15,800	355	17,375	17,400	195	18,975	19,000	35
12,600	12,625	673	14,200	14,225	513	15,800	15,825	353	17,400	17,425	193	19,000	19,025	33
12,625	12,650	670	14,225	14,250	510	15,825	15,850	350	17,425	17,450	190	19,025	19,050	30
12,650	12,675	668	14,250	14,275	508	15,850	15,875	348	17,450	17,475	188	19,050	19,075	28
12,675	12,700	665	14,275	14,300	505	15,875	15,900	345	17,475	17,500	185	19,075	19,100	25
12,700	12,725	663	14,300	14,325	503	15,900	15,925	343	17,500	17,525	183	19,100	19,125	23
12,725	12,750	660	14,325	14,350	500	15,925	15,950	340	17,525	17,550	180	19,125	19,150	20
12,750	12,775	658	14,350	14,375	498	15,950	15,975	338	17,550	17,575	178	19,150	19,175	18
12,775	12,800	655	14,375	14,400	495	15,975	16,000	335	17,575	17,600	175	19,175	19,200	15
12,800	12,825	653	14,400	14,425	493	16,000	16,025	333	17,600	17,625	173	19,200	19,225	13
12,825	12,850	650	14,425	14,450	490	16,025	16,050	330	17,625	17,650	170	19,225	19,250	10
12,850	12,875	648	14,450	14,475	488	16,050	16,075	328	17,650	17,675	168	19,250	19,275	8
12,875	12,900	645	14,475	14,500	485	16,075	16,100	325	17,675	17,700	165	19,275	19,300	5
12,900	12,925	643	14,500	14,525	483	16,100	16,125	323	17,700	17,725	163	19,300	19,325	3
12,925	12,950	640	14,525	14,550	480	16,125	16,150	320	17,725	17,750	160	19,325	19,340	1
12,950	12,975	638	14,550	14,575	478	16,150	16,175	318	17,750	17,775	158			
12,975	13,000	635	14,575	14,600	475	16,175	16,200	315	17,775	17,800	155	**$19,340 or more**—you cannot take the credit		
13,000	13,025	633	14,600	14,625	473	16,200	16,225	313	17,800	17,825	153			
13,025	13,050	630	14,625	14,650	470	16,225	16,250	310	17,825	17,850	150			
13,050	13,075	628	14,650	14,675	468	16,250	16,275	308	17,850	17,875	148			
13,075	13,100	625	14,675	14,700	465	16,275	16,300	305	17,875	17,900	145			
13,100	13,125	623	14,700	14,725	463	16,300	16,325	303	17,900	17,925	143			
13,125	13,150	620	14,725	14,750	460	16,325	16,350	300	17,925	17,950	140			
13,150	13,175	618	14,750	14,775	458	16,350	16,375	298	17,950	17,975	138			
13,175	13,200	615	14,775	14,800	455	16,375	16,400	295	17,975	18,000	135			
13,200	13,225	613	14,800	14,825	453	16,400	16,425	293	18,000	18,025	133			
13,225	13,250	610	14,825	14,850	450	16,425	16,450	290	18,025	18,050	130			
13,250	13,275	608	14,850	14,875	448	16,450	16,475	288	18,050	18,075	128			
13,275	13,300	605	14,875	14,900	445	16,475	16,500	285	18,075	18,100	125			
13,300	13,325	603	14,900	14,925	443	16,500	16,525	283	18,100	18,125	123			

Example

Sylvia qualifies for the earned income credit. Her wages for 1989 were $6,506 and she received $4,000 in alimony payments. The worksheet (Exhibit 8) shows how Sylvia's earned income credit was figured. Note that the two figures entered on lines 6a and 6b are from the EIC table (Exhibit 7).

Exhibit 8



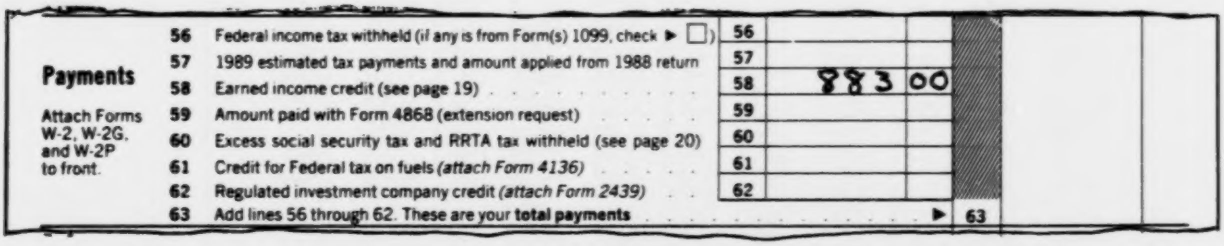
Earned Income Credit Worksheet (Keep for your records)

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1.	Enter the amount from Form 1040, line 7, plus any other earned income, whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. **Note:** *If you included earned income on line 1 that is not taxable, write "NEI" on the dotted line next to line 58 even if you cannot claim the credit.*	$ 6,506
2.	If you were self-employed, enter the amount, even if a loss, from Schedule SE, Section A, line 3, or Section B, line 3c. But, if you use the optional method to figure your self-employment tax, see **Pub. 596** for more information before entering an amount on line 2. If you included self-employment income on line 1 above, do not include it here.	-0-
3.	**Earned income.** Add lines 1 and 2. But if line 2 is a loss, subtract line 2 from line 1. If line 3 is zero or less, stop here; you **cannot** take the credit. If line 3 is more than zero, go on to line 4.	6,506
4.	**Adjusted gross income.** Enter the amount from Form 1040, line 32. If this amount is $19,340 or more, stop here; you **cannot** take the credit. Otherwise, go on to line 5 or line 6, whichever applies.	10,506
5.	If line 4 is **less than $10,250**, use the amount on line 3 to find the credit in the table that begins on page 52. Enter the credit here and on Form 1040, line 58.	
6.	If line 4 is **$10,250** or more:	▨
	a. First, use the amount on line 3 to find the credit that begins on page 52. Enter that amount here. $ 910	▨
	b. Then, use the amount on line 4 to find the credit in the table. Enter that amount here. $ 883	▨
	c. Compare the amounts on lines **6a** and **6b** above. Enter the **smaller** of the two amounts here. Also enter this amount on Form 1040, line 58.	$ 883

The amount on line 6c of the worksheet (Exhibit 8) is also entered on line 58 of Form 1040 (Exhibit 9).

Exhibit 9



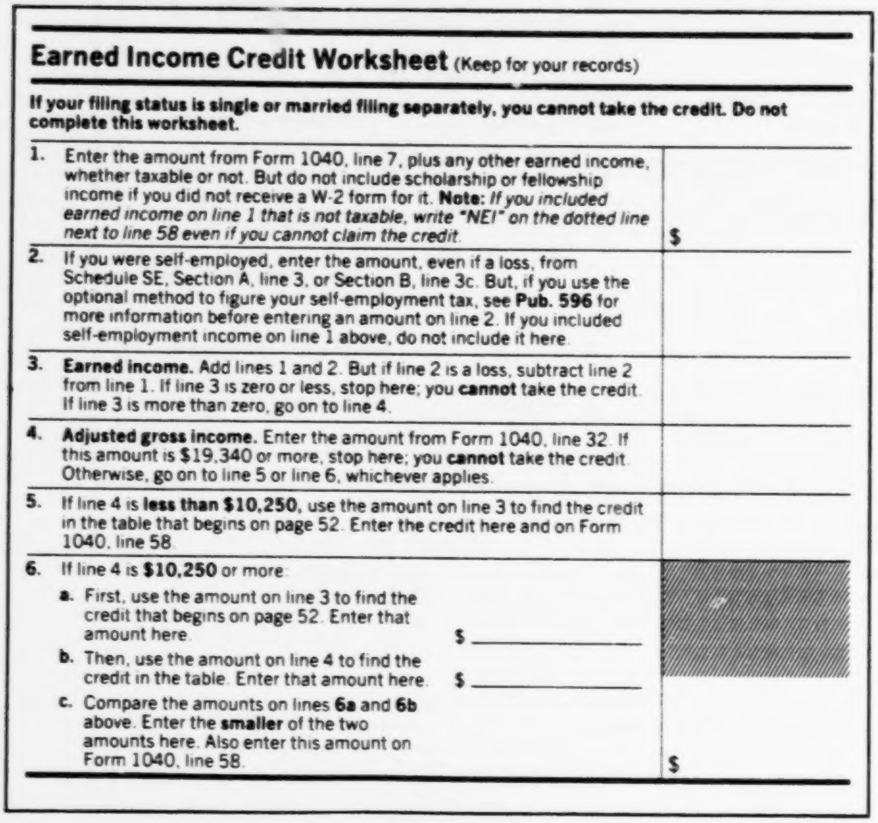
Payments	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56			▨	
	57	1989 estimated tax payments and amount applied from 1988 return	57			▨	
	58	Earned income credit (see page 19)	58	883	00	▨	
Attach Forms W-2, W-2G, and W-2P to front.	59	Amount paid with Form 4868 (extension request)	59			▨	
	60	Excess social security tax and RRTA tax withheld (see page 20)	60			▨	
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61			▨	
	62	Regulated investment company credit *(attach Form 2439)*	62			▨	
	63	Add lines 56 through 62. These are your **total payments** ▶				63	

Exercise 3

Myrna files as head of household and claims her 12-year-old daughter, Ceil, as her dependent. Myrna earned $10,710 in wages. She received $155 in interest income and $200 from a lottery. Myrna files Form 1040. What, if any, is Myrna's earned income credit? Prepare the *Earned Income Credit*

Worksheet (Exhibit 10), and *Payments* section of Form 1040 (Exhibit 11) for Myrna.

Exhibit 10

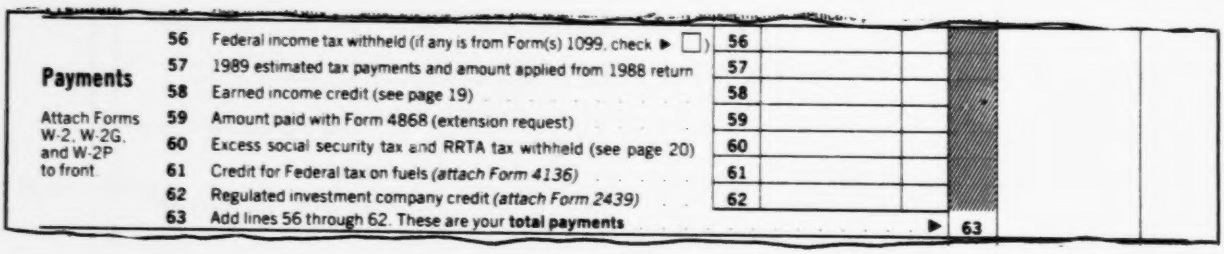


Earned Income Credit Worksheet (Keep for your records)

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1. Enter the amount from Form 1040, line 7, plus any other earned income, whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. **Note:** *If you included earned income on line 1 that is not taxable, write "NEI" on the dotted line next to line 58 even if you cannot claim the credit.* $
2. If you were self-employed, enter the amount, even if a loss, from Schedule SE, Section A, line 3, or Section B, line 3c. But, if you use the optional method to figure your self-employment tax, see **Pub. 596** for more information before entering an amount on line 2. If you included self-employment income on line 1 above, do not include it here.
3. **Earned income.** Add lines 1 and 2. But if line 2 is a loss, subtract line 2 from line 1. If line 3 is zero or less, stop here; you **cannot** take the credit. If line 3 is more than zero, go on to line 4.
4. **Adjusted gross income.** Enter the amount from Form 1040, line 32. If this amount is $19,340 or more, stop here; you **cannot** take the credit. Otherwise, go on to line 5 or line 6, whichever applies.
5. If line 4 is **less than $10,250,** use the amount on line 3 to find the credit in the table that begins on page 52. Enter the credit here and on Form 1040, line 58.
6. If line 4 is **$10,250** or more:
   - **a.** First, use the amount on line 3 to find the credit that begins on page 52. Enter that amount here. $ ____________
   - **b.** Then, use the amount on line 4 to find the credit in the table. Enter that amount here. $ ____________
   - **c.** Compare the amounts on lines **6a** and **6b** above. Enter the **smaller** of the two amounts here. Also enter this amount on Form 1040, line 58. $

Exhibit 11

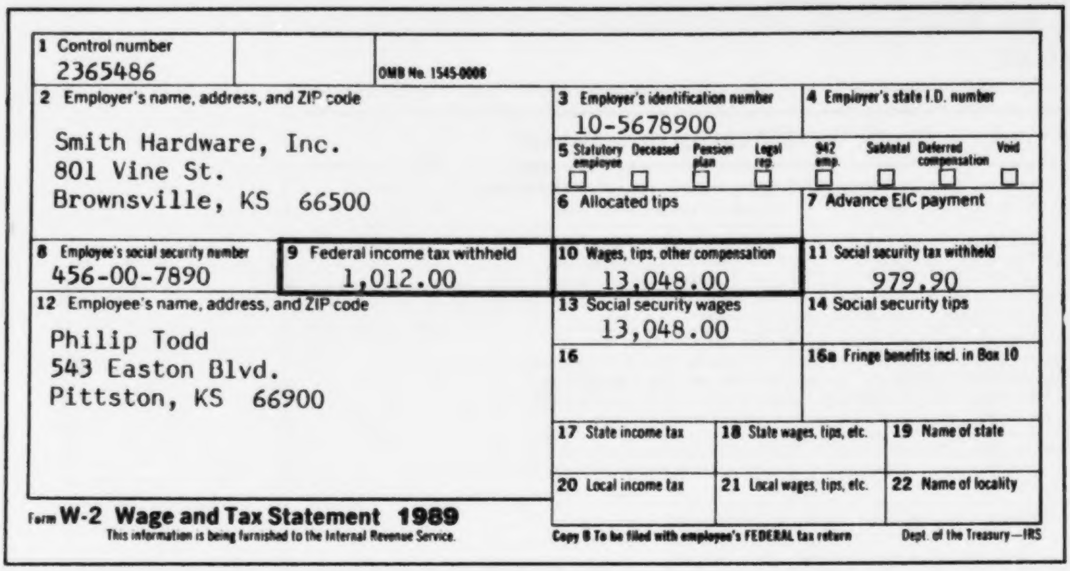


Payments Attach Forms W-2, W-2G, and W-2P to front.	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56			
	57	1989 estimated tax payments and amount applied from 1988 return	57			
	58	Earned income credit (see page 19)	58			
	59	Amount paid with Form 4868 (extension request)	59			
	60	Excess social security tax and RRTA tax withheld (see page 20)	60			
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61			
	62	Regulated investment company credit *(attach Form 2439)*	62			
	63	Add lines 56 through 62. These are your **total payments** ▶			63	

Exercise 4

a. The Forms W-2, *Wage and Tax Statement,* for Philip Todd are shown in Exhibits 12 and 13. From the amounts shown on the statements, federal income tax withheld is ____________.

Exhibit 12



1 Control number 2365486	OMB No. 1545-0008
2 Employer's name, address, and ZIP code Smith Hardware, Inc. 801 Vine St. Brownsville, KS 66500	3 Employer's identification number 10-5678900
	4 Employer's state I.D. number
	5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐
	6 Allocated tips
	7 Advance EIC payment
8 Employee's social security number 456-00-7890	9 Federal income tax withheld 1,012.00
10 Wages, tips, other compensation 13,048.00	11 Social security tax withheld 979.90
12 Employee's name, address, and ZIP code Philip Todd 543 Easton Blvd. Pittston, KS 66900	13 Social security wages 13,048.00
	14 Social security tips
	16
	16a Fringe benefits incl. in Box 10
	17 State income tax
	18 State wages, tips, etc.
	19 Name of state
	20 Local income tax
	21 Local wages, tips, etc.
	22 Name of locality

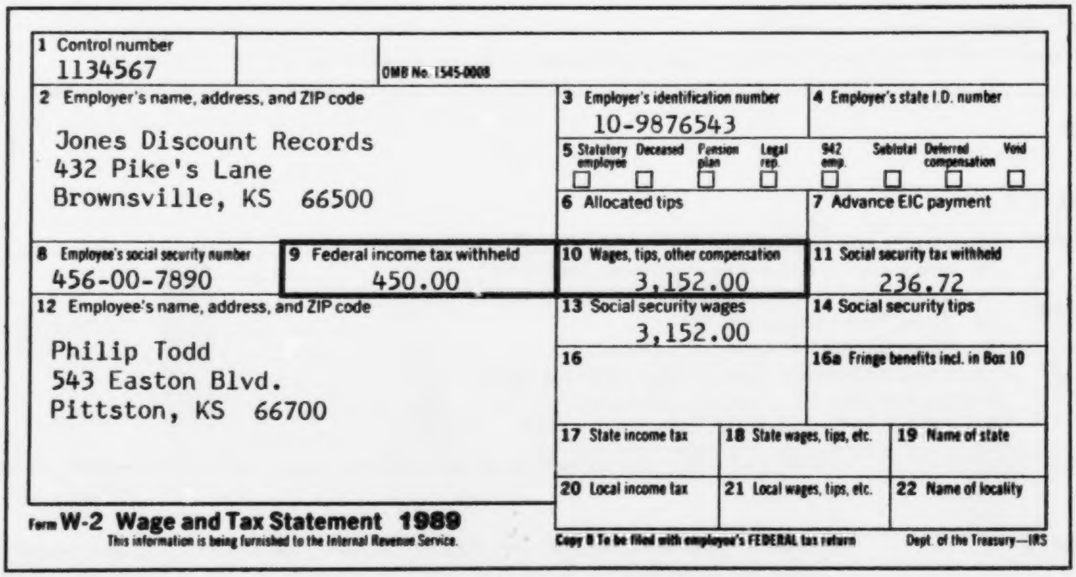
Form W-2 Wage and Tax Statement 1989

This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

Exhibit 13



1 Control number 1134567	OMB No. 1545-0008
2 Employer's name, address, and ZIP code Jones Discount Records 432 Pike's Lane Brownsville, KS 66500	3 Employer's identification number 10-9876543
	4 Employer's state I.D. number
	5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐
	6 Allocated tips
	7 Advance EIC payment
8 Employee's social security number 456-00-7890	9 Federal income tax withheld 450.00
10 Wages, tips, other compensation 3,152.00	11 Social security tax withheld 236.72
12 Employee's name, address, and ZIP code Philip Todd 543 Easton Blvd. Pittston, KS 66700	13 Social security wages 3,152.00
	14 Social security tips
	16
	16a Fringe benefits incl. in Box 10
	17 State income tax
	18 State wages, tips, etc.
	19 Name of state
	20 Local income tax
	21 Local wages, tips, etc.
	22 Name of locality

Form W-2 Wage and Tax Statement 1989

This information is being furnished to the Internal Revenue Service.

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

b. Dale paid $500 in estimated tax to the Internal Revenue Service. What line on Form 1040 do you use to enter this payment? ____________

c. Shirley paid $200, the balance due on last year's income tax return, to the Internal Revenue Service. Is this $200 an estimated tax payment for this year's income tax return? ____________

d. Circle the items that are earned income for earned income credit purposes.
   (1) Wages
   (2) Housing allowance for a member of the clergy (excludable from gross income)
   (3) Disability pension
   (4) Strike benefits
   (5) Interest income
   (6) Unemployment compensation
   (7) Alimony received
   (8) Child support
   (9) Social security benefits
   (10) Dividend income
   (11) Tip income

e. Circle the numbers for taxpayers who can claim the earned income credit.
   (1) Dolores' filing status is single.
   (2) Anna and Jim are married and file a joint return. Their adjusted gross income is $19,800, and they claim one dependent child.
   (3) Samantha has one dependent child and files as head of household. She has earned income and adjusted gross income of $8,400.
   (4) Assume the same facts as in (3), except that Samantha is filing Form 2555 to exempt income earned in a foreign country.
   (5) Alvin files as a qualifying widower with one dependent child. Adjusted gross income and earned income are the same, $9,500.

f. Assume that the people in the following cases can claim the earned income credit. How much is it in each case?
   (1) Earned income is $5,000 and adjusted gross income is $6,600.

   ____

   (2) Earned income is $3,000 and adjusted gross income is $5,080.

   ____

   (3) Earned income and adjusted gross income are the same, $6,465.

   ____

   (4) Earned income and adjusted gross income are the same, $9,901.

   ____

Summary

Volunteers are concerned with the following payments:

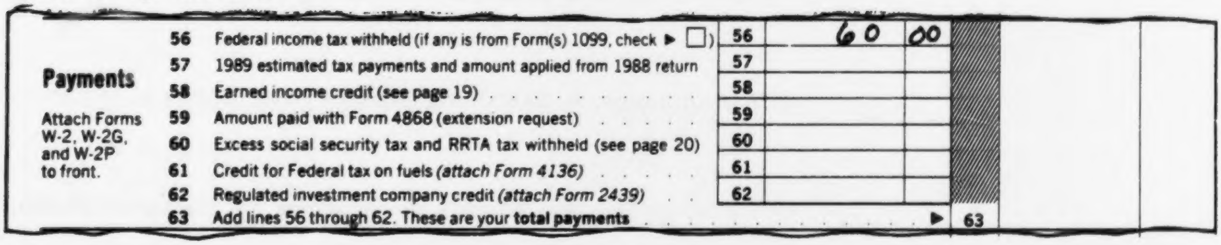
1. Federal income tax withheld, which is reported in box 9 of Form W-2, or box 11 of Form W-2P. Federal income tax withheld may also be shown on Form 1099-INT or Form 1099-DIV.
2. Estimated tax, which is often paid in four installments, is entered on line 57, Form 1040.
3. Earned income credit, which is a refundable credit available to certain taxpayers.

You should refer taxpayers who have other payments not covered in this lesson to a professional preparer for assistance.

Answers to Exercises

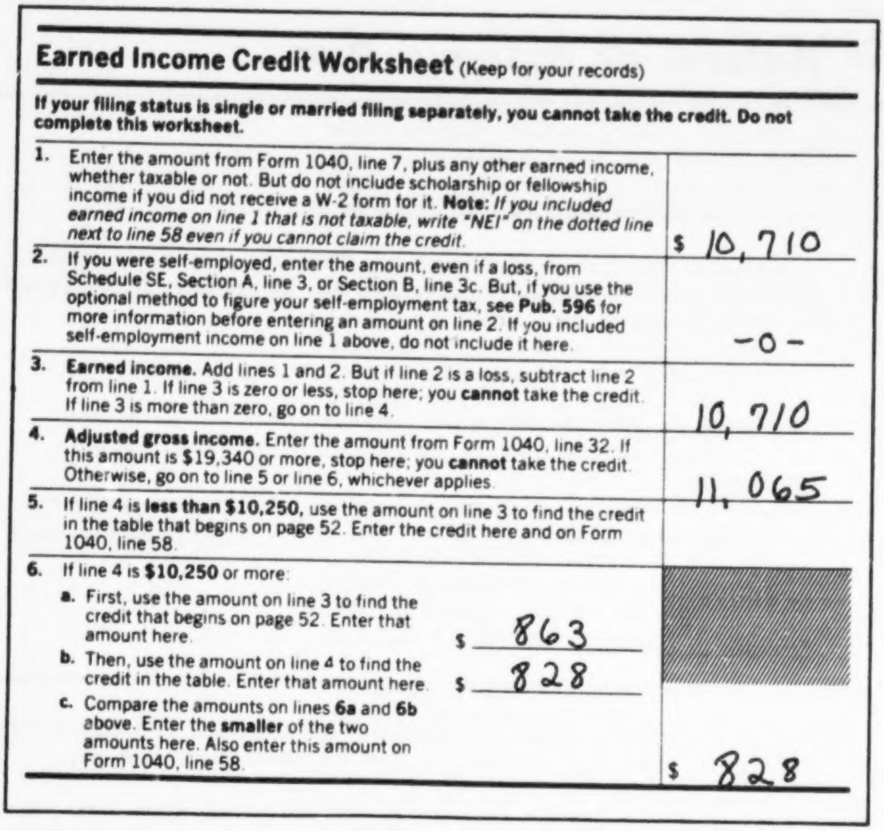
1. See filled-in Exhibit 3.
2. a. (1) Yes. $8,600 is adjusted gross income.
      (2) Yes. Wages, $8,500.
      (3) No. She has no children.
      (4) Head of household.
      (5) No. Melissa did not have a child who lived with her in the same home in the U.S. for more than half the year.
   b. (1) Sam's filing status is single.
      (2) No. Sam cannot claim the earned income credit because his filing status is single. Sam is not eligible for head of household status because Philip did not live in his home for more than half the year.
   c. Yes.
   d. No. John is excluding income earned in a foreign country.
3. See filled-in Exhibits 10 and 11.
4. a. $1,462.
   b. Form 1040, line 57.
   c. No. The $200 payment is for last year's taxes. The taxpayer pays estimated tax for the year he or she earns income.
   d. Items (1), (2), (3), (4), and (11) are earned income.
   e. Taxpayers (3) and (5).
   f. (1) $702.
      (2) $422.
      (3) $905.
      (4) $910.

Exhibit 3, filled-in



Payments Attach Forms W-2, W-2G, and W-2P to front.	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56	60	00		
	57	1989 estimated tax payments and amount applied from 1988 return	57				
	58	Earned income credit (see page 19)	58				
	59	Amount paid with Form 4868 (extension request)	59				
	60	Excess social security tax and RRTA tax withheld (see page 20)	60				
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61				
	62	Regulated investment company credit *(attach Form 2439)*	62				
	63	Add lines 56 through 62. These are your **total payments** ▶				63	

Exhibit 10, filled-in

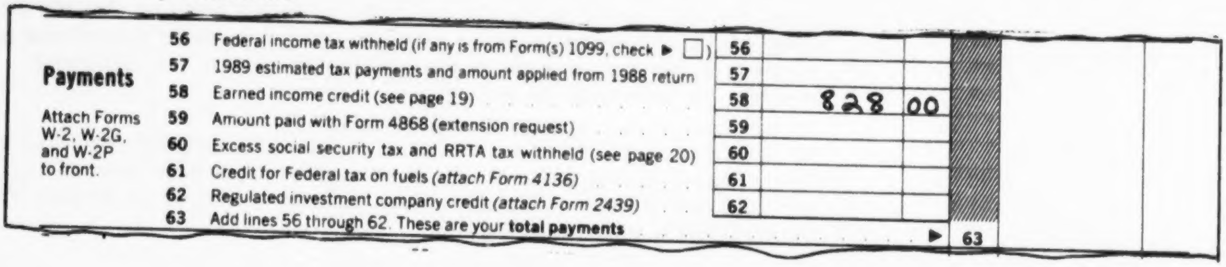


Earned Income Credit Worksheet (Keep for your records)

If your filing status is single or married filing separately, you cannot take the credit. Do not complete this worksheet.

1.	Enter the amount from Form 1040, line 7, plus any other earned income, whether taxable or not. But do not include scholarship or fellowship income if you did not receive a W-2 form for it. **Note:** *If you included earned income on line 1 that is not taxable, write "NEI" on the dotted line next to line 58 even if you cannot claim the credit.*	$ 10,710
2.	If you were self-employed, enter the amount, even if a loss, from Schedule SE, Section A, line 3, or Section B, line 3c. But, if you use the optional method to figure your self-employment tax, see **Pub. 596** for more information before entering an amount on line 2. If you included self-employment income on line 1 above, do not include it here.	-0-
3.	**Earned income.** Add lines 1 and 2. But if line 2 is a loss, subtract line 2 from line 1. If line 3 is zero or less, stop here; you **cannot** take the credit. If line 3 is more than zero, go on to line 4.	10,710
4.	**Adjusted gross income.** Enter the amount from Form 1040, line 32. If this amount is $19,340 or more, stop here; you **cannot** take the credit. Otherwise, go on to line 5 or line 6, whichever applies.	11,065
5.	If line 4 is **less than $10,250,** use the amount on line 3 to find the credit in the table that begins on page 52. Enter the credit here and on Form 1040, line 58.	
6.	If line 4 is **$10,250** or more:	
	a. First, use the amount on line 3 to find the credit that begins on page 52. Enter that amount here. $ 863	
	b. Then, use the amount on line 4 to find the credit in the table. Enter that amount here. $ 828	
	c. Compare the amounts on lines **6a** and **6b** above. Enter the **smaller** of the two amounts here. Also enter this amount on Form 1040, line 58.	$ 828

Exhibit 11, filled-in



Payments	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56				
	57	1989 estimated tax payments and amount applied from 1988 return	57				
	58	Earned income credit (see page 19)	58	828	00		
Attach Forms W-2, W-2G, and W-2P to front.	59	Amount paid with Form 4868 (extension request)	59				
	60	Excess social security tax and RRTA tax withheld (see page 20)	60				
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61				
	62	Regulated investment company credit *(attach Form 2439)*	62				
	63	Add lines 56 through 62. These are your **total payments** ▶				63	

Module III

Lesson 10

Refund or Balance Due

Objectives

At the end of this lesson you will be able to:

1. Complete the *Refund or Amount You Owe* section of Form 1040.
2. Identify when a taxpayer may have to pay the penalty for underpayment of estimated tax.

Contents

Introduction

Amount Overpaid

Balance Due

Underpayment of Estimated Tax

Summary

Answers to Exercise

Introduction

To see if tax was overpaid or underpaid, you will need to compare the total tax on the return (line 55) with the total payments made (line 63).

Amount Overpaid

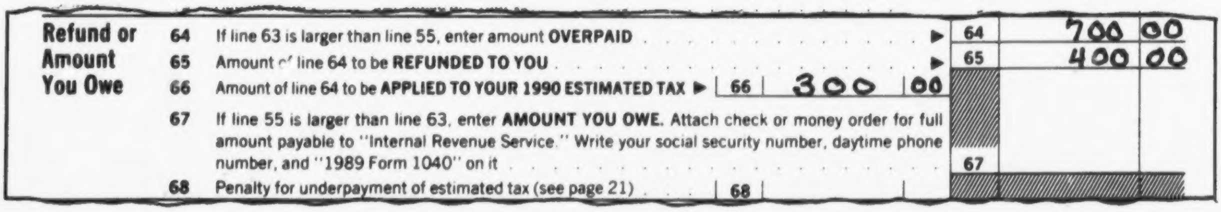
If total payments (line 63) exceed the total tax on the return (line 55), the taxpayer has overpaid tax. The overpayment may be refunded, or the taxpayer can choose to have all or part of it applied to next year's tax.

If the taxpayer wants a full refund of the overpayment, include it on line 65 of Form 1040, and make no entry on line 66. If the taxpayer chooses to apply the full amount to the tax for 1990, make an entry on line 66 with no entry on line 65. If the taxpayer wants to receive a partial refund and apply the rest of the overpayment to the tax for 1990, enter the appropriate amounts on both lines 65 and 66.

Example

Mr. and Mrs. Henry have a total tax of $706 and payments of $1,406 in 1989. Their overpayment is $700. They want to have $400 refunded and $300 applied to their 1990 taxes. Their completed *Refund or Amount You Owe* section is shown in Exhibit 1.

Exhibit 1



Refund or Amount You Owe	64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶		64	700	00
	65	Amount of line 64 to be **REFUNDED TO YOU** ▶		65	400	00
	66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶	66 300 00	▨		
	67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it		67		
	68	Penalty for underpayment of estimated tax (see page 21)	68	▨	▨	▨

Balance Due

If total tax (line 55 of Form 1040) is more than total payments (line 63), the difference is the amount the taxpayer owes. Advise the taxpayer to send with the return a check or money order for the amount due. A complete list of where to file is in the instructions for Form 1040 and also in Publication 17. On the payment the taxpayer should include his or her social security number, daytime phone number, the year of the return, and the return number (Form 1040EZ, 1040A, or 1040). Also remind the taxpayer to file and pay on time, so interest and penalties will not be charged for filing or paying late. Advise taxpayers that even if they cannot send in their full tax payment, they can avoid penalties for late filing by sending in the return on time.

You may receive inquiries about how people can make voluntary contributions to reduce the public debt. If a taxpayer wants to contribute, he or she should make a separate check or money order payable to "Bureau of the Public Debt" and may enclose it in the tax return envelope. Subject to the limits on charitable contributions, the taxpayer can deduct this contribution as an itemized deduction on the 1990 tax return. Remind the taxpayer not to combine the contribution with any payment of tax due, which should be made payable to "Internal Revenue Service."

Underpayment of Estimated Tax

Estimated taxes, the penalties for underpayment of estimated taxes, and the exceptions and waivers to the penalties are discussed in Module IV, Lesson 7. However, for the purpose of this lesson, you should be able to identify when a taxpayer is liable for the penalty. The following discussion assumes that the taxpayer has no net earnings from self-employment. You should refer all self-employed taxpayers to a professional preparer.

In the last lesson, which explained the *Payments* section of Form 1040, you learned who must pay estimated tax. Generally, if the total payments are less than 90% of the total tax for the current year's return (line 53, which does not take into consideration the Supplemental Medicare premium) or less than 100% of last year's tax, the taxpayer will be charged a penalty for underpaying estimated tax. No penalty will be charged, however, and no estimated tax payments will be required, if the amount of tax not paid through withholding is less than $500.

Example

Clare Hanson's total tax for 1989 is $2,365. She had total withholding of $2,160 for the year. Clare will not be charged the penalty because her total withholding was at least 90% of her total tax ($2,365 × 90% = $2,129). If her underpayment were $500 or more and she had not paid at least 90% of the total tax, Clare might be liable for the penalty.

Exceptions to the Penalty—Form 2210

Both the penalty for underpaying estimated tax and an exception to the penalty are figured on Form 2210, *Underpayment of Estimated Tax by Individuals*. You should tell the taxpayer that exceptions exist. There are also waivers to the penalty. Form 2210 is discussed in Module IV, Lesson 7.

Exercise

In the following situations, determine if the underpayment penalty may apply to the taxpayer. If so, explain why. Assume that none of the taxpayers are eligible for the waivers for retirement, disability, or hardship and that all payments were timely made.

a. Total tax on 1989 return: $2,122.

Total payments on 1989 return: $1,935.

Total tax shown on return: $1,810.

Answer

b. Total tax on 1989 return: $800.

Total payments on 1989 return: $450.

Total tax shown on 1988 return: $425.

Answer

c. Total tax on 1989 return: $1,946.

Total payments on 1989 return: $1,050.

Total tax shown on 1988 return: $1,874.

Answer

Summary

Compare the total tax on the return with the total payments made during the year to see if the taxpayer has either overpaid or underpaid tax. If there is an overpayment, be sure to show whether it is to be refunded, applied to next year's tax, or partly refunded and partly applied to next year's tax. If the taxpayer has to pay more tax, you should see whether he or she may have to file Form 2210.

Answers to Exercise

a. No. The payments are at least 90% of the total tax ($2,122 × 90% = $1,910), at least 100% of the total shown on the 1988 return ($1,810), and the underpayment is less than $500.
b. No. The underpayment is less than $500.
c. Yes. The underpayment is more than $500, the payments are less than 90% of the total tax on the 1989 return ($1,946 × 90% = $1,751), and less than 100% of the total tax shown on the 1988 return ($1,874).

Module III

Lesson 11

Finishing the Return

Objectives

At the end of this lesson you will be able to:

1. Complete the taxpayer identification section of Form 1040.
2. Explain the signature section to a taxpayer.
3. Use the proper VITA or TCE designation.
4. Review the return for completeness and accuracy.
5. Assemble the return.

Contents

Introduction

Taxpayer Identification Section

Presidential Election Campaign Fund

Signature

VITA or VITA–T

TCE or TCE–X

Reviewing the Return

Assembling the Return

Summary

Introduction

Now that you have completed the line items, you are ready to finish the Form 1040.

Taxpayer Identification Section

*

The taxpayer identification section is at the top of the return. It includes the taxpayer's and the taxpayer's spouse's (if married, filing a joint return) name, address, and social security number. Be sure to fill in the social security numbers correctly so the return can be processed without delay.

Using the Preaddressed Label

Taxpayers who filed returns last year probably received this year's forms packages by mail. The packages include preaddressed labels. Use these labels because they help save processing time. Peel the label off the bottom front cover of the taxpayer's forms package and place it in the address area of the return. Mark through any errors on the label and print the correct information right on the label.

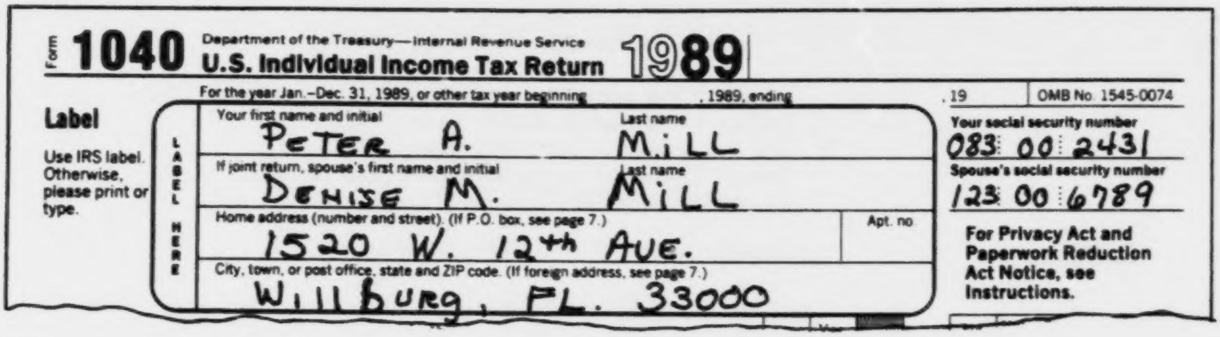
If the taxpayer did not receive a forms package or does not have the label, print the required information in the taxpayer identification section.

If the post office delivers mail to the taxpayer's P.O. box, rather than to a street address, enter the P.O. box number on the line for the present home address.

Joint Returns

On a joint return enter on the first line the taxpayer's name and then the last name. On the second line enter the taxpayer's spouse's first name and then the last name. Enter the names as shown in Exhibit 1.

Exhibit 1



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 1989

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label
Use IRS label. Otherwise, please print or type.
LABEL HERE

Your first name and initial: PETER A. Last name: MiLL
Your social security number: 083 00 2431

If joint return, spouse's first name and initial: DENISE M. Last name: MiLL
Spouse's social security number: 123 00 6789

Home address (number and street). (If P.O. box, see page 7.): 1520 W. 12th AVE. Apt. no.

City, town, or post office, state and ZIP code. (If foreign address, see page 7.): Willburg, FL. 33000

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

The order of listing husband and wife is not important, but it is important to follow the same order for social security numbers, signatures, and names on attached schedules. It is a good idea to use the same order of names each year.

Schedules

All Form 1040-related schedules and attachments have to be identified in case they get separated from Form 1040. Be sure each has the taxpayer's name (or names) and the social security number. On a joint return list the names in the same order used on Form 1040, and put the first social security number on each schedule. See the instructions later for assembling the return.

Presidential Election Campaign Fund

The Presidential Election Campaign Fund question follows the taxpayer identification section on Form 1040. By checking "Yes," a taxpayer gives permission for $1 to go to the Presidential Election Campaign Fund. On a joint return, each taxpayer chooses whether $1 should go to the fund. Checking "Yes" will not change the tax or refund shown on the return.

Signature

The taxpayer must sign and date the return, or it cannot be processed. Both spouses must sign a joint return, even if only one had income.

Occupation

Filling in occupations is part of completing a return. Let taxpayers tell you their occupations and record them in the same words.

VITA or VITA-T TCE or TCE-X

On each return you prepare in the VITA program, write "VITA" in the paid preparer's section. If the taxpayer prepares the return with your help, write "VITA-T." Do not sign your name. Many VITA sites have a supply of returns with the VITA designation preprinted.

If you are a TCE volunteer, you should write "TCE" in the paid preparer's section, and if the taxpayer at a TCE site prepares the return with your help, write "TCE-X." Many TCE sites also supply returns with the volunteer designation preprinted.

Detailed instructions for identifying returns with VITA and TCE designations are in the Administrative Procedures lesson in Module I.

Reviewing the Return

You will want to review the return for accuracy and completeness. Make sure you transferred the right amounts from the taxpayer's Forms W-2, 1099, etc. Use a calculator to verify your math computations and refer to the following Quality Review Checklist. When you finish, have another volunteer or quality reviewer at the site look over the return.

Quality Review Checklist

1. Are the name, address, and social security number blocks completed accurately?
2. Is the Presidential Election Campaign Fund question answered?
3. Is the filing status correct?
4. Are the exemptions checked, listed, and added correctly?
5. Are social security numbers entered for dependents age 2 or older?
6. Are the income items entered correctly?
7. Has the correct tax been selected from the Tax Table?
8. Does the tax withheld shown on the return agree with Forms W-2, 1099-INT, and 1099-DIV?
9. Is the refund or balance due figured correctly?
10. Did the taxpayer sign and date the return?
11. Are the occupation spaces filled in?
12. Are all Forms W-2 and other schedules or forms attached to the return?
13. Is the return identified as "VITA" or "TCE" in the paid preparer's section?

Assembling the Return

Forms W-2

Staple Copy B of all Forms W-2 and W-2P right side up in the left margin of Form 1040 where indicated. Do not attach any Forms 1099 to the income tax return. Generally, the taxpayer should keep the 1099s, Copy C of Form W-2 or W-2P, and his or her own copy of the completed return, for at least 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever date is later.

Payments

If the taxpayer makes a payment with the return, advise the taxpayer to make the check or money order payable to "Internal Revenue Service," to write the social security number, daytime telephone number, form number (Form 1040, 1040A, or 1040EZ), and year of the return (1989) on the payment, and to attach the payment to the left margin of Form 1040, page 1, where indicated.

Arranging Pages

Arrange the schedules and forms in order of the "Attachment Sequence No." behind Form 1040, and staple them in the upper left corner. The sequence number is in the upper right corner of the schedule or form. Attach forms without an attachment sequence number and any additional information sheets at the end of the return.

Summary

This lesson covers the last parts to complete on Form 1040: the taxpayer identification section, the Presidential Election Campaign Fund block, the signature section, the volunteer designation, and the quality review.

This lesson completes the module on preparing Form 1040. Module IV contains advanced topics and issues of interest to the elderly.

Lesson 1

Sales of Stock

Objectives

At the end of this lesson you will be able to:

1. Identify the items that affect the basis of stock.
2. Determine the holding period for long-term and short-term capital gain.
3. Figure the gain or loss from the sale of stock using Schedule D, Form 1040.

Contents

Introduction

Holding Period

Capital Gain or Loss

Figuring Gain or Loss

Form 1099–B

Reporting Gain or Loss

Wash Sales

Capital Loss Carryover

Summary

Introduction

As a general rule, property owned and used by an individual for personal or investment purposes is a capital asset. For example, houses, furniture, cars, and stocks and bonds are capital assets. Sales of most capital assets must be reported on Schedule D, *Capital Gains and Losses.* Losses on the sale of an item owned for personal use, such as a car, furniture, or a home, are not deductible.

In this lesson you will learn about the sales of stocks, and how to report the gain or loss from their sale on Schedule D (Form 1040). Sales of other capital assets must also be reported on Schedule D, but this lesson covers only the sales of stocks. To determine whether there is a gain or loss, and how to report it on a tax return, you must understand such tax terms as holding period, basis, adjusted basis, and gross sales price.

Caution: When this publication went to print, Congress was considering legislation to change the rules for taxation of capital gains. When the legislation is complete, IRS will take steps to publish the final rules. One action planned is to publish the new rules in Publication 553, *Highlights of 1989 Tax Changes*. Another action may be to issue an addendum to Publication 678.

Holding Period

The time a taxpayer owns an asset is called the ***holding period.*** The length of the holding period before disposing of an asset determines the tax treatment of capital gains and losses and where the asset is reported on Schedule D.

Sales of assets are categorized as either short term or long term, depending on the length of time the stock was owned by the taxpayer. A short-term holding period is one year or less; a long term holding period is more than one year.

Capital Gain or Loss

Basis

The cost of property is usually its basis for figuring any gain or loss from the sale or other disposition of the asset. Certain costs of purchase, such as purchase commissions and recording fees, may also be included in the property's basis. If a taxpayer acquired stock other than by purchase (such as by gift, inheritance, performance of services, or exchange of property), refer the taxpayer to Publication 551, *Basis of Assets*.

Example

Tom Mason bought 50 shares of MDK stock, which cost $750. He paid a broker's commission of $30. Tom's basis in the stock is $780 ($750 plus $30).

Adjusted Basis

The basis of stock often must be adjusted for events that occur after purchase. If a taxpayer received additional stock from nontaxable stock dividends or stock splits, the basis of the original stock must be reduced. The basis must also be reduced if the taxpayer received return of capital (nontaxable) distributions.

If a taxpayer sold shares of stock purchased on different dates or at different prices, the taxpayer must be able to specifically identify the lot from which the shares were sold. If these cannot be identified, the basis of the stock sold is charged against the earliest of such lots purchased. However, under certain circumstances, the basis of shares in a mutual fund purchased at different prices may be averaged. Refer the taxpayer to Publication 550, *Investment Income and Expenses*, or Publication 564, *Mutual Fund Distributions*.

Sales Price

The sales price on the sale of stock depends on the method used by the broker to report the sale to the Internal Revenue Service. Some brokers report the net amount received by the taxpayer. That is, the gross proceeds of the sale minus the commissions and fees incurred on the sale. Other brokers report the gross proceeds of the sale. In this case, the taxpayer adds the selling expenses to the basis of the stock. The broker must send a Form 1099–B, or similar statement, to the taxpayer showing how the sale was reported. It is important to report the same sales price as shown on Form 1099–B since the broker also sends a copy of this form to the Internal Revenue Service.

Holding Periods

Gains or losses on sales of stock are categorized as either short-term or long-term gains or losses, depending on the length of time the stock was owned. For stock, the date of disposition is the date of the actual sale (trading date) and not the settlement date. Gain or loss is recognized on the trading date.

To determine how many months the taxpayer has held stock, begin counting on the day after he or she acquired the stock. This same day of each succeeding month begins a new month, regardless of the number of days in the preceding month. The day the taxpayer disposes of the property is considered part of the holding period.

The total gain on both short-term and long-term capital assets is taxed. Sales must be reported according to the holding periods.

Example

Gloria Banks bought 10 shares of AXY stock on July 20, 1988, and sold it on January 20, 1989. The date after the date of acquisition is July 21. The 21st of each succeeding month is the beginning of a new month. The last day of the one-year holding period, therefore, is July 20, 1989. Thus, this is a short-term capital transaction.

Exercise 1

Determine whether the taxpayer has a short-term or long-term capital gain in the following situations.

a. On May 10, 1988, Brian Cooper bought 100 shares of NNN Corporation stock for $100 a share and on February 10, 1989, he sold the 100 shares for $150 a share.
   ( ) Long-term ( ) Short-term
b. Use the same facts as in (a), except that Brian sold the stock on May 11, 1989.
   ( ) Long-term ( ) Short-term
c. On January 4, 1989, Sandi Black bought 100 shares of ZYX Corporation stock for $100 a share, and on April 30, 1989, she sold the 100 shares for $150 a share.
   ( ) Long-term ( ) Short-term
d. Use the same facts as in (c), except that Sandi sold the stock on June 6, 1989.
   ( ) Long-term ( ) Short-term

Note: If a taxpayer has any questions about holding periods for property acquired by gift, refer the taxpayer to Publication 17, *Your Federal Income Tax*, or Publication 544, *Sales and Other Dispositions of Assets*.

Figuring Gain or Loss

Gain on the sale of stock is the excess of the sales price over the adjusted basis of the stock. On Schedule D, the selling expenses are added to the adjusted basis unless only the net amount received is shown on Form 1099–B.

Example

Joan Fremont bought stock for $100 and paid a purchase commission of $10. She later sold it for $500. She paid selling expenses of $25. The Form 1099–B she received showed a gross receipt of $500. Her gain is figured as follows:

Sales price		$500
Less: Adjusted basis	$110	
Expense of sale	25	135
Gain		$365

Loss on the sale of stock is the excess of the adjusted basis over the sales price.

Example

Norman Brown purchased stock for $650. He later sold it for $300. He paid selling expenses of $60. His Form 1099–B showed a gross receipt of $300. His loss is figured as follows:

Adjusted basis	$650
Add: Expense of sale	60
Total	$710
Deduct: Sales price	300
Loss	($410)

Example

Tim Williams sold stock for $500. His adjusted basis in the stock was $350. His broker reported net proceeds of $450 on Form 1099–B after the commission was deducted. His gain is figured as follows:

Proceeds	$450
Less: Adjusted basis	350
Gain	$100

Exercise 2

Check the appropriate blank to show whether there is a gain or loss in each of the following situations.

a. Bought 100 shares of XXX stock for $1,000.

Sold 100 shares for $1,500.

Gain ___________ Loss ___________

b. Bought 10 shares of XYZ stock for $875.

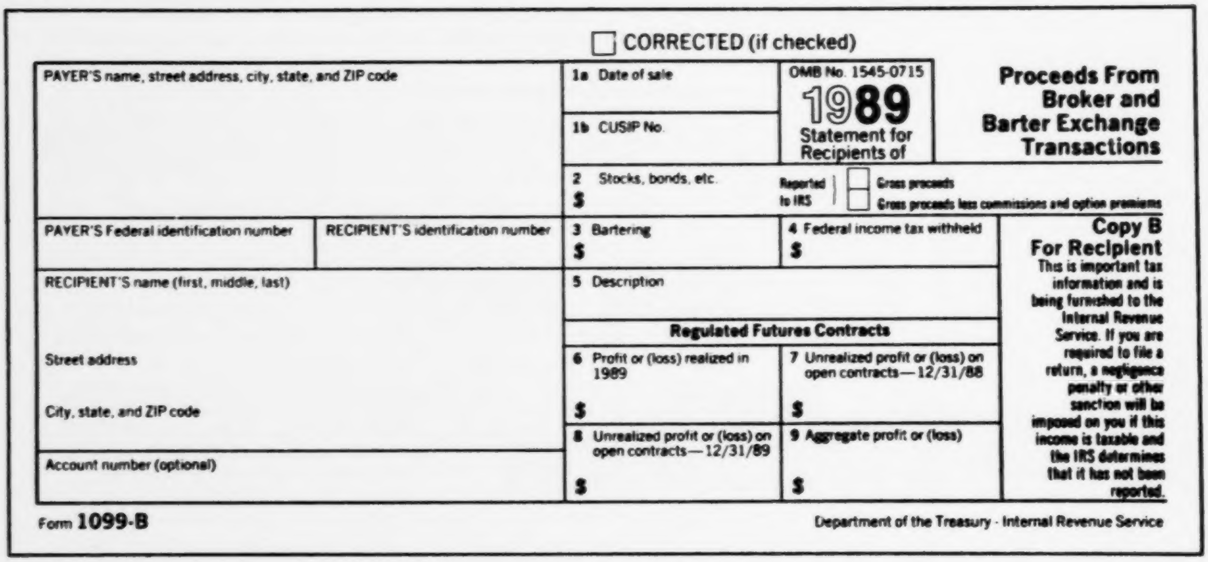
Sold 5 shares for $400.

Gain ___________ Loss ___________

Form 1099–B

Any person doing business as a broker or barter exchange must report the gross proceeds from each transaction (other than regulated futures contracts) on a separate Form 1099–B (Exhibit 1). Box 1a shows the trade date of the transaction. To compute the holding period, you must always use the trade date. Box 2 shows the proceeds of the sale. This may be the amount received before the sales commission was deducted, in which case the top box is checked. If it is the net amount received by the taxpayer after the sales commission was deducted, the bottom box is checked.

Exhibit 1



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

1a Date of sale

1b CUSIP No.

OMB No. 1545-0715

1989

Statement for Recipients of

Proceeds From Broker and Barter Exchange Transactions

2 Stocks, bonds, etc. $

Reported to IRS ☐ Gross proceeds ☐ Gross proceeds less commissions and option premiums

PAYER'S Federal identification number

RECIPIENT'S identification number

3 Bartering $

4 Federal income tax withheld $

Copy B For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name (first, middle, last)

5 Description

Regulated Futures Contracts

Street address

6 Profit or (loss) realized in 1989 $

7 Unrealized profit or (loss) on open contracts—12/31/88 $

City, state, and ZIP code

8 Unrealized profit or (loss) on open contracts—12/31/89 $

9 Aggregate profit or (loss) $

Account number (optional)

Form **1099-B**

Department of the Treasury · Internal Revenue Service

Specific instructions for the recipients of Form 1099–B are on the back of Copy B. If there are entries in boxes 3 or 6 through 9, refer the taxpayer to a professional tax preparer.

Reporting Gain or Loss

Schedule D is the form used to report sales of stock and other capital transactions. It is important to separate the transactions by holding periods before you start to complete it.

Schedule D, Part I (Short-term Capital Gains and Losses)

Use Part I for gains and losses from the sale of stock held one year or less. Use line 2a (and, if necessary, line 2b) to report each sale for which the taxpayer has a Form 1099-B. The sales price of all these transactions is totaled on line 2c. If there are no other Schedule D transactions, also enter this total on line 1. This is the reconciliation of Forms 1099-B. The total sales price shown on line 1 must equal the total of all Form 1099-B sales prices reported to the taxpayer and to the Internal Revenue Service by brokers.

Example

John E. Hunt bought 200 shares of XYZ stock on January 19, 1989, for $2,000 including commissions. He sold the stock on May 10, 1989, for $1,500. He incurred selling expenses of $75. Part I of his Schedule D is shown here as Exhibit 2.

Exhibit 2

SCHEDULE D **(Form 1040)** Department of the Treasury Internal Revenue Service	**Capital Gains and Losses** **(And Reconciliation of Forms 1099-B)** ► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040). ► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).	OMB No. 1545-0074 **1989** Attachment Sequence No. **12A**

Name(s) shown on Form 1040: John E. Hunt

Your social security number: 123 00 4567

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples . . . 1 | 1,500 00

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
200 sh. XYZ	1/19/89	5/10/89	1,500 -	2075 -	575 -	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total (add column (d) of lines 2a and 2b) . . ► 2c			1,500 -			
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	(575 -)	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		(575 -)

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total (add column (d) of lines 9a and 9b) . . ► 9c						
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	( )	
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		

For Paperwork Reduction Act Notice, see Form 1040 Instructions. Schedule D (Form 1040) 1989

Schedule D, Part II (Long-term Capital Gains and Losses)

Use Part II for long-term gains and losses from the sale of stock. The only difference between transactions listed on Part I and those listed on Part II is the holding period of the asset. Line 9a is used to report each sale for which the taxpayer has a Form 1099–B. The sales price of all these transactions is totaled on line 9c. The total of lines 2c and 9c should equal the amount shown on line 1. If they are not the same, follow the instructions for line 1.

Note: A taxpayer with questions regarding entries to be made on lines 4, 5, 6, 11, 12, 14, and 15 should be referred to a professional tax preparer.

Combining Gains and Losses

Taxpayers may have both gains and losses in the same year.

Example

On February 4, 1988, Sam Baker bought 100 shares of ABC stock for $1,000, and on May 7, 1988, he bought 150 shares of XYZ stock for $1,000. He sold the ABC stock on March 21, 1989, for $1,700. His broker reported the gross sales price on Form 1099–B. He had $80 in selling expenses. On June 3, 1989, he sold the XYZ stock for $800, which was the net sales price. Part II of Sam's Schedule D is shown as Exhibit 3.

Exhibit 3

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
▶ For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040: Sam Baker
Your social security number: 000 00 0000

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples	1	2,500 –

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c **Total** (add column (d) of lines 2a and 2b) ▶ 2c						
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	( )	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a)	(b)	(c)	(d)	(e)	(f)	(g)
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
100 sh. ABC	2/4/88	3/21/89	1,700 –	1,080 –		620 –
150 sh. XYZ	5/7/88	6/3/89	800 –	1,000 –	200 –	
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c **Total** (add column (d) of lines 9a and 9b) ▶ 9c			2,500 –			
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	(200 –)	620 –
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		420 –

For Paperwork Reduction Act Notice, see Form 1040 Instructions.
Schedule D (Form 1040) 1989

Exercise 3

On June 15, 1988, Mary Lewis bought 15 shares of QXI stock for $1,450, and on March 10, 1988, she bought 50 shares of KYZ stock for $1,000. She sold the QXI stock on June 21, 1989, for $500 and paid a commission of $50. She sold the KYZ stock on May 18, 1989, for $4,100 and paid a commission of $100. Her broker reported the gross sales price for both sales. Fill in Part II of Mary's Schedule D (Exhibit 4).

Exhibit 4

SCHEDULE D **(Form 1040)** Department of the Treasury Internal Revenue Service	# Capital Gains and Losses **(And Reconciliation of Forms 1099-B)** ▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040). ▶ For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).	OMB No. 1545-0074 **1989** Attachment Sequence No. **12A**
Name(s) shown on Form 1040		Your social security number

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples	1	

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d) subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c **Total** (add column (d) of lines 2a and 2b) ▶ 2c						
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	( )	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7		8	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a)	(b)	(c)	(d)	(e)	(f)	(g)
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c **Total** (add column (d) of lines 9a and 9b) ▶ 9c						
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	( )	
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16		17	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Combining Long-Term and Short-Term Transactions

Until now, we have looked only at examples of taxpayers with either long-term or short-term transactions. Let's see how Schedule D looks when both long-term and short-term transactions occur.

Example

On December 23, 1987, Priscilla A. Mills bought 100 shares of WXY Corporation stock for $2,500. On January 6, 1989, she bought 50 shares of QUT Corporation stock for $600. On June 5, 1989, she sold the QUT stock for $450, and on February 15, 1989, she sold the WXY stock for $5,000. Her broker reported the net sales price for both stocks. Parts I and II of Priscilla's Schedule D are shown in Exhibit 5.

Exhibit 5

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)
► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No 1545-0074
1989
Attachment Sequence No **12A**

Name(s) shown on Form 1040 Priscilla A. Mills
Your social security number 987 00 6543

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples	1	5,450 -

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
50 sh. QUT	1/6/89	6/5/89	450 -	600 -	150 -	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c **Total** (add column (d) of lines 2a and 2b) ► 2c			450 -			
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

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3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	(150 -)	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		(150 -)

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a)	(b)	(c)	(d)	(e)	(f)	(g)
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
100 sh. WXY	12/23/87	2/15/89	5,000 -	2,500 -		2,500 -
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c **Total** (add column (d) of lines 9a and 9b) ► 9c			5,000 -			
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	( )	2,500 -
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		2,500

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Note: The total sales price on line 2c, Part I, and line 9c, Part II, equals the amount shown on line 1 above Part I.

Schedule D, Part III

Part III summarizes the information from Parts I and II. You will note that the net result of Part I is entered on line 8 of the Schedule D and that the net result of Part II is entered on line 17. Line 18 (Part III) combines these two lines. When line 18 of a taxpayer's Schedule D transactions for the year is a net gain, enter the amount on Form 1040, line 13.

Examples of combining and netting short-term and long-term gains and losses follow:

Example

	A	B	C	D
Line 8	$300 gain	($600) loss	$1,000 gain	($900) loss
Line 17	(1,600) loss	700 gain	1,500 gain	(300) loss
Line 18	(1,300) Net loss	100 Net gain	2,500 Net gain	(1,200) Net loss

Example

Patty R. Nelson sold four different stocks during the year. She received a Form 1099–B for each sale from her broker. Her broker uses the net proceeds sales price. Patty completed Schedule D, Parts I, II, and III as shown in Exhibits 6 and 7.

Exhibit 6

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040: Patty R. Nelson

Your social security number: 987 00 1234

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples . . . . . . 1 | 3,700 -

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
50 sh. ZNY	9/9/88	3/2/89	600 -	300 -		300 -
100 sh. OMA	1/5/89	6/15/89	800 -	900 -	100 -	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1) .						
2c Total (add column (d) of lines 2a and 2b) . ► 2c			1,400 -			
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

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			(f)	(g)
3	Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14 .	3		
4	Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5	Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries . .	5		
6	Short-term capital loss carryover	6		
7	Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g) . .	7	(100 -)	300 -
8	Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		200 -

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or other basis	(f) LOSS	(g) GAIN
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
100 sh. NOM	6/17/87	3/2/89	1,200 -	1,400 -	200 -	
100 sh. BTY	12/15/87	6/28/89	1,100 -	500 -		600 -
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1) .						
9c Total (add column (d) of lines 9a and 9b) . ► 9c			2,300 -			
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

			(f)	(g)
10	Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14 .	10		
11	Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12	Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries . .	12		
13	Capital gain distributions	13		
14	Enter gain from Form 4797, line 7 or 9	14		
15	Long-term capital loss carryover	15		
16	Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g) .	16	(200 -)	600 -
17	Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		400 -

For Paperwork Reduction Act Notice, see Form 1040 Instructions. Schedule D (Form 1040) 1989

Exhibit 7

Schedule D (Form 1040) 1989 Attachment Sequence No. **12A** Page **2**

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.) **Your social security number**

Part III Summary of Parts I and II

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 . . . . 18 600 —

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) . . . . 19 ( )

Note: *When figuring whether 19a or 19b is* **smaller**, *treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** 20

Note: *For lines 21 through 36, treat all amounts as positive.*

21 Enter the loss shown on line 19 21

22 Enter the amount shown on Form 1040, line 36 22

23 Combine lines 20, 21, and 22. If zero or less, enter zero 23

24 Enter the **smaller** of line 21 or line 23 24

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 25

26 Enter the gain, if any, shown on line 17 26

27 Enter the amount shown on line 24 27

28 Add lines 26 and 27 28

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990** 29

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 30

31 Enter the gain, if any, shown on line 8 31

32 Enter the amount shown on line 24 32

33 Enter the amount, if any, shown on line 25 33

34 Subtract line 33 from line 32. If zero or less, enter zero 34

35 Add lines 31 and 34 35

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** 36

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method . . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . . ▶ ....

39 Enter the percentage of valuation of the note or other obligation . . . . ▶

Part VI Reconcile Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

		Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40 Form 1040, line 22	40	
41 Schedule C (Form 1040)	41	
42 Schedule D (Form 1040)	42	
43 Schedule E (Form 1040)	43	
44 Schedule F (Form 1040)	44	
45 Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45	
46 Total (add lines 40 through 45)	46	

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Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Exercise 4

Charles C. Cain sold four stocks during the year. His broker reports the net proceeds as the sales price. Complete Schedule D through Part III (Exhibits 8 and 9) using the following information.

Stock	Purchase Date	Adjusted Basis	Date Sold	Net Sales Price
100 sh ABC	5/7/87	$1,000	5/12/89	$3,000
50 sh XYZ	6/10/87	500	1/6/89	400
200 sh XOX	1/12/89	250	6/28/89	600
10 sh MOM	10/6/88	575	4/1/89	300

Exhibit 8

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses
(And Reconciliation of Forms 1099-B)

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040

Your social security number

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples 1

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1) .						
2c **Total** (add column (d) of lines 2a and 2b) . ► **2c**						
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14 .	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries . .	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g) . .	7	( )	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7		8	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

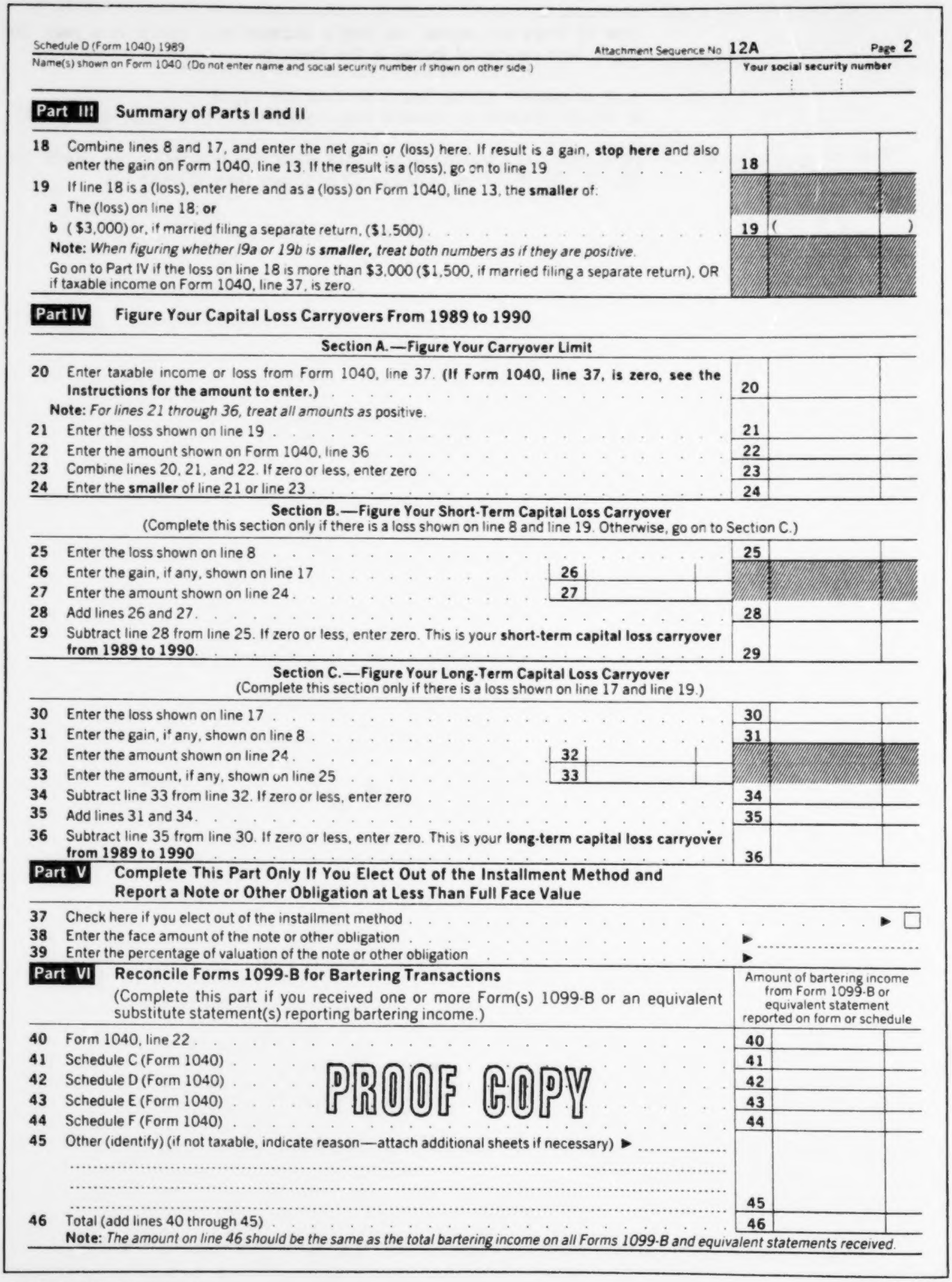
(a)	(b)	(c)	(d)	(e)	(f)	(g)
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1) .						
9c **Total** (add column (d) of lines 9a and 9b) . ► **9c**						
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14 .	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries . .	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g) .	16	( )	
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16		17	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit 9



Schedule D (Form 1040) 1989 Attachment Sequence No. 12A Page 2

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.) | Your social security number

Part III Summary of Parts I and II

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 18

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) . . . . 19 ( )

Note: *When figuring whether 19a or 19b is* **smaller,** *treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** 20

Note: *For lines 21 through 36, treat all amounts as* positive.

21 Enter the loss shown on line 19 21

22 Enter the amount shown on Form 1040, line 36 22

23 Combine lines 20, 21, and 22. If zero or less, enter zero 23

24 Enter the **smaller** of line 21 or line 23 24

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 25

26 Enter the gain, if any, shown on line 17 26

27 Enter the amount shown on line 24 27

28 Add lines 26 and 27 28

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990** 29

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 30

31 Enter the gain, if any, shown on line 8 31

32 Enter the amount shown on line 24 32

33 Enter the amount, if any, shown on line 25 33

34 Subtract line 33 from line 32. If zero or less, enter zero 34

35 Add lines 31 and 34 35

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** 36

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method . . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . . ▶ ....

39 Enter the percentage of valuation of the note or other obligation . . . . ▶ ....

Part VI Reconcile Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

		Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40	Form 1040, line 22	40
41	Schedule C (Form 1040)	41
42	Schedule D (Form 1040)	42
43	Schedule E (Form 1040)	43
44	Schedule F (Form 1040)	44
45	Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45
46	Total (add lines 40 through 45)	46

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Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Limit on Deductible Loss

Line 19 limits the capital loss that a taxpayer may deduct in a year. The yearly limit on capital losses is the lower of:

1. A taxpayer's capital loss shown on line 18, or
2. $3,000 ($1,500 for married filing separately).

Example

Ed Cotton, who files as single, sold stock and incurred a net capital loss of $2,000. Part III of his Schedule D is shown here (Exhibit 10).

Exhibit 10

Schedule D (Form 1040) 1989 Attachment Sequence No. 12A Page 2

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.) | Your social security number

Part III **Summary of Parts I and II**

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 . . . . 18 (2,000 —)

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) . . . . 19 (2,000 —)

Note: *When figuring whether 19a or 19b is* ***smaller****, treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV **Figure Your Capital Loss Carryovers From 1989 to 1990**

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** 20

Note: *For lines 21 through 36, treat all amounts as positive.*

21 Enter the loss shown on line 19 21

22 Enter the amount shown on Form 1040, line 36 22

23 Combine lines 20, 21, and 22. If zero or less, enter zero 23

24 Enter the **smaller** of line 21 or line 23 24

Section B.—Figure Your Short-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 25

26 Enter the gain, if any, shown on line 17 26

27 Enter the amount shown on line 24 27

28 Add lines 26 and 27 28

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990** 29

Section C.—Figure Your Long-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 30

31 Enter the gain, if any, shown on line 8 31

32 Enter the amount shown on line 24 32

33 Enter the amount, if any, shown on line 25 33

34 Subtract line 33 from line 32. If zero or less, enter zero 34

35 Add lines 31 and 34 35

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** 36

Part V **Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value**

37 Check here if you elect out of the installment method . . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . . ▶ ....

39 Enter the percentage of valuation of the note or other obligation . . . . ▶

Part VI **Reconcile Forms 1099-B for Bartering Transactions**
(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule

40 Form 1040, line 22 40

41 Schedule C (Form 1040) 41

42 Schedule D (Form 1040) 42

43 Schedule E (Form 1040) 43

44 Schedule F (Form 1040) 44

45 Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶ 45

46 Total (add lines 40 through 45) 46

Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

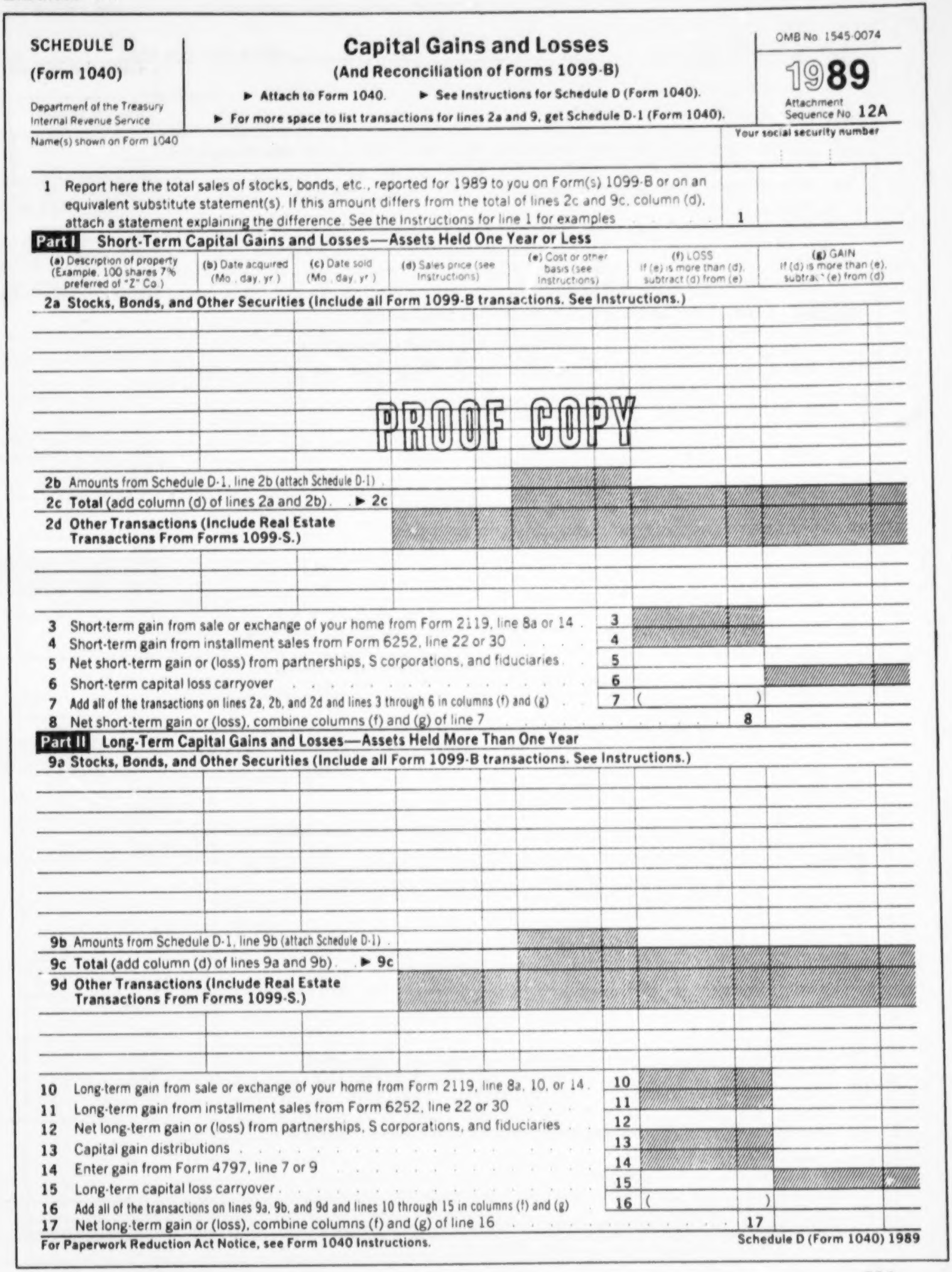
PROOF COPY

Exercise 5

Jane C. Perry, a single taxpayer, sold several stocks during the year. Her broker reports the net proceeds as the sales price. Complete Schedule D through Part III (Exhibits 11 and 12) using the following information.

Stock	Purchase Date	Adjusted Basis	Date Sold	Net Sales Price
100 sh KMY	2/8/87	$2,000	3/9/89	$3,000
50 sh OPQ	10/12/87	1,000	5/26/89	1,500
75 sh AOK	11/12/88	4,000	4/13/89	3,400
100 sh MDP	1/14/89	1,900	5/11/89	800
200 sh KYZ	1/26/89	3,000	6/1/89	500

Exhibit 11



SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses
(And Reconciliation of Forms 1099-B)

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
▶ For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040

Your social security number

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples . . . 1

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1) .						
2c **Total** (add column (d) of lines 2a and 2b) . ▶ 2c						
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14 . 3
4 Short-term gain from installment sales from Form 6252, line 22 or 30 4
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries . . 5
6 Short-term capital loss carryover 6
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g) . 7 ( )
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7 8

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1) .						
9c **Total** (add column (d) of lines 9a and 9b) . ▶ 9c						
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14 . 10
11 Long-term gain from installment sales from Form 6252, line 22 or 30 . . . 11
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries . . 12
13 Capital gain distributions 13
14 Enter gain from Form 4797, line 7 or 9 14
15 Long-term capital loss carryover 15
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g) 16 ( )
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16 17

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit 12

Schedule D (Form 1040) 1989 Attachment Sequence No **12A** Page **2**

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.) | **Your social security number**

Part III Summary of Parts I and II

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 18

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) . . . . 19 ( )

Note: *When figuring whether 19a or 19b is* ***smaller****, treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** 20

Note: *For lines 21 through 36, treat all amounts as positive.*

21 Enter the loss shown on line 19 21

22 Enter the amount shown on Form 1040, line 36 22

23 Combine lines 20, 21, and 22. If zero or less, enter zero 23

24 Enter the **smaller** of line 21 or line 23 24

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 25

26 Enter the gain, if any, shown on line 17 26

27 Enter the amount shown on line 24 27

28 Add lines 26 and 27 28

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990** 29

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 30

31 Enter the gain, if any, shown on line 8 31

32 Enter the amount shown on line 24 32

33 Enter the amount, if any, shown on line 25 33

34 Subtract line 33 from line 32. If zero or less, enter zero 34

35 Add lines 31 and 34 35

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** 36

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method . . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . . ▶ ....

39 Enter the percentage of valuation of the note or other obligation . . . . ▶

Part VI Reconcile Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

		Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40 Form 1040, line 22	40	
41 Schedule C (Form 1040)	41	
42 Schedule D (Form 1040)	42	
43 Schedule E (Form 1040)	43	
44 Schedule F (Form 1040)	44	
45 Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45	
46 Total (add lines 40 through 45)	46	

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Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

SCHEDULE D
(Form 1040)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

► **Attach to Form 1040.** ► **See Instructions for Schedule D (Form 1040).**

► **For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).**

OMB No 1545-0074

1989

Attachment Sequence No **12A**

Name(s) shown on Form 1040

Your social security number

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples . . . 1

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1) .				▨		
2c **Total** (add column (d) of lines 2a and 2b) ► 2c				▨	▨	▨
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)			▨	▨	▨	▨

PROOF COPY

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14 . 3

4 Short-term gain from installment sales from Form 6252, line 22 or 30 . 4

5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries . . 5

6 Short-term capital loss carryover 6

7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g) . . 7 ( )

8 Net short-term gain or (loss), combine columns (f) and (g) of line 7 8

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1) .				▨		
9c **Total** (add column (d) of lines 9a and 9b) . ► 9c				▨	▨	▨
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)			▨	▨	▨	▨

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14 . 10

11 Long-term gain from installment sales from Form 6252, line 22 or 30 . 11

12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries . . 12

13 Capital gain distributions 13

14 Enter gain from Form 4797, line 7 or 9 . 14

15 Long-term capital loss carryover 15

16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g) 16 ( )

17 Net long-term gain or (loss), combine columns (f) and (g) of line 16 17

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule D (Form 1040) 1989**

Wash Sales

A wash sale occurs when a person sells stock or securities (including contracts or options to acquire or sell stock or securities) and, within 30 days before or after the sale, acquires substantially identical stock. Losses from wash sales or exchanges of stocks or securities are not deductible. However, the gain from these sales is taxable. Taxpayers with a wash sale should be referred to a professional tax preparer.

Capital Loss Carryover

If a taxpayer's capital losses exceed the limit on capital loss deductions for a year, he or she may carry over the allowable excess to later years until it is absorbed. When carried over, the loss retains its original character as either short term or long term.

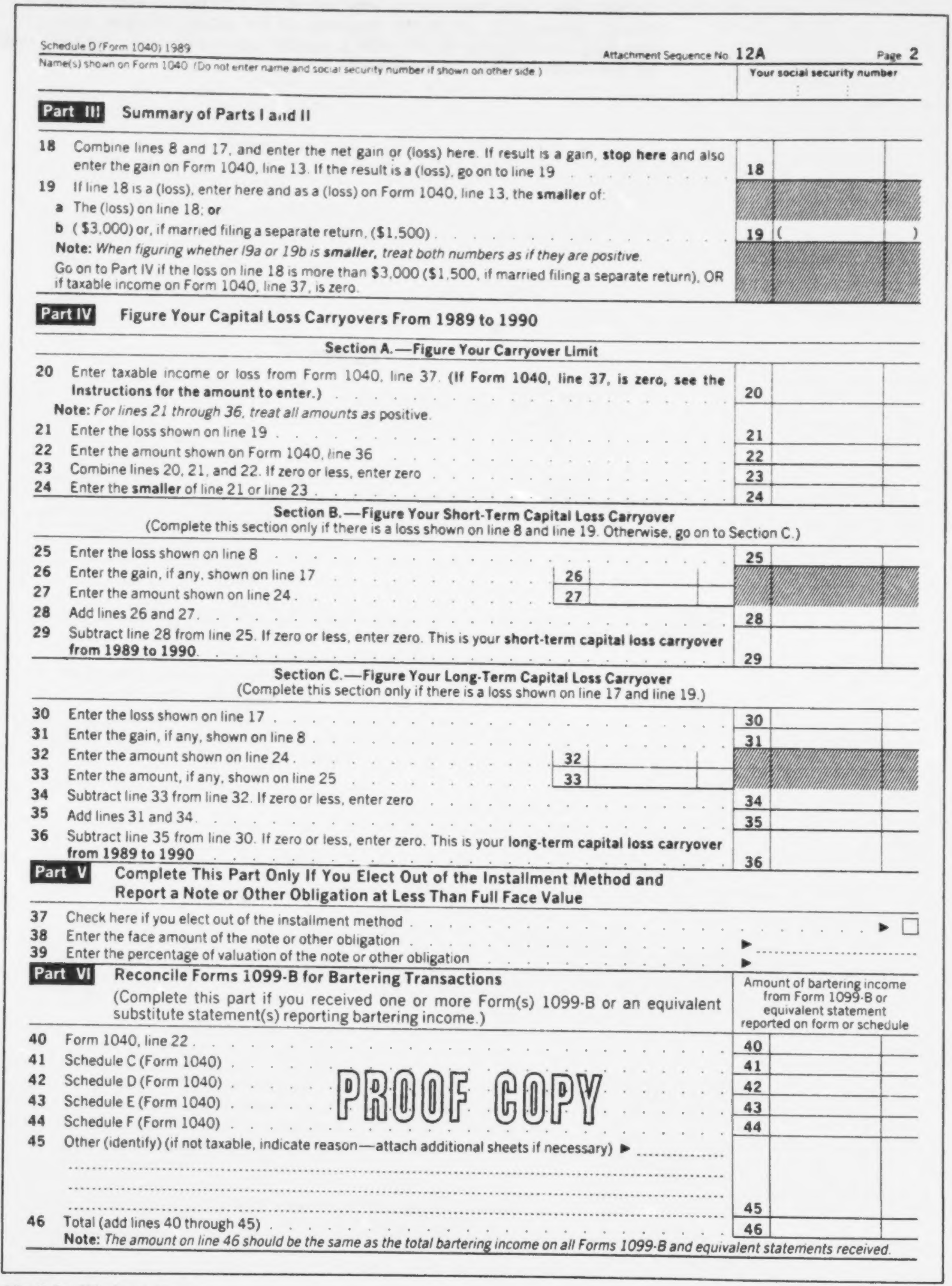
* The amount of a taxpayer's capital loss that may be carried over is the amount of his or her loss that exceeds the lesser of:

1) The taxpayer's allowable capital loss deduction for the year, or

2) The taxpayer's taxable income increased by his or her allowable capital loss deduction for the year and his or her deduction for personal exemptions.

If the taxpayer's deductions exceed his or her gross income for the tax year, use the negative taxable income when computing the amount in item (2). Use the following worksheet to figure the Part IV of Schedule D to 1990 (Exhibit 13).

Exhibit 13



Schedule D (Form 1040) 1989 Attachment Sequence No. **12A** Page **2**

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.) | **Your social security number**

Part III **Summary of Parts I and II**

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 18

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) . . . . 19 ( )

Note: *When figuring whether 19a or 19b is* ***smaller,*** *treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV **Figure Your Capital Loss Carryovers From 1989 to 1990**

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** 20

Note: *For lines 21 through 36, treat all amounts as positive.*

21 Enter the loss shown on line 19 21

22 Enter the amount shown on Form 1040, line 36 22

23 Combine lines 20, 21, and 22. If zero or less, enter zero 23

24 Enter the **smaller** of line 21 or line 23 24

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 25

26 Enter the gain, if any, shown on line 17 26

27 Enter the amount shown on line 24 27

28 Add lines 26 and 27 28

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990** 29

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 30

31 Enter the gain, if any, shown on line 8 31

32 Enter the amount shown on line 24 32

33 Enter the amount, if any, shown on line 25 33

34 Subtract line 33 from line 32. If zero or less, enter zero 34

35 Add lines 31 and 34 35

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** 36

Part V **Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value**

37 Check here if you elect out of the installment method . . . . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . . . . ▶ ....

39 Enter the percentage of valuation of the note or other obligation . . . . . . ▶

Part VI **Reconcile Forms 1099-B for Bartering Transactions**

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule

40 Form 1040, line 22 40

41 Schedule C (Form 1040) 41

42 Schedule D (Form 1040) 42

43 Schedule E (Form 1040) 43

44 Schedule F (Form 1040) 44

PROOF COPY

45 Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶ ....

....

....

..................45

46 Total (add lines 40 through 45) 46

Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Example

Peter and Ann Miner file a joint return. Their taxable income for 1989 is $21,000. For 1989, they had a total net short-term capital loss on line 18, Part III, Schedule D, of $3,400. Because of the yearly limitation, their deduction is limited to $3,000 with a capital loss carryover to the next year for the remaining $400 (see Exhibits 14 and 15).

Exhibit 14

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses
(And Reconciliation of Forms 1099-B)

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
▶ For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. 12A

Name(s) shown on Form 1040: Peter and Ann Miner

Your social security number: 000 00 0000

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples	1	1,000 —

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
40 sh. LMZ	2/1/89	6/5/89	1,000 -	4,400 -	3,400 -	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total (add column (d) of lines 2a and 2b) ▶ 2c			1,000 -			
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	(3,400 -)	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		3,400 -

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total (add column (d) of lines 9a and 9b) ▶ 9c						
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	( )	
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit 15

Schedule D (Form 1040) 1989 Attachment Sequence No. **12A** Page **2**

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)	**Your social security number**

Part III **Summary of Parts I and II**

18	Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19	18	(3,400	-)
19	If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of: a The (loss) on line 18; **or** b ($3,000) or, if married filing a separate return, ($1,500)	19	(3,000	-)
	Note: *When figuring whether 19a or 19b is* **smaller**, *treat both numbers as if they are positive.* Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.			

Part IV **Figure Your Capital Loss Carryovers From 1989 to 1990**

Section A.—Figure Your Carryover Limit

20	Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)**	20	21,000	-
	Note: *For lines 21 through 36, treat all amounts as positive.*			
21	Enter the loss shown on line 19	21	3,000	-
22	Enter the amount shown on Form 1040, line 36	22	4,000	-
23	Combine lines 20, 21, and 22. If zero or less, enter zero	23	28,000	-
24	Enter the **smaller** of line 21 or line 23	24	3,000	-

Section B.—Figure Your Short-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25	Enter the loss shown on line 8			25	3,400	-
26	Enter the gain, if any, shown on line 17	26	0			
27	Enter the amount shown on line 24	27	3,000 -			
28	Add lines 26 and 27			28	3,000	-
29	Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990**			29	400	-

Section C.—Figure Your Long-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 17 and line 19.)

30	Enter the loss shown on line 17			30		
31	Enter the gain, if any, shown on line 8			31		
32	Enter the amount shown on line 24	32				
33	Enter the amount, if any, shown on line 25	33				
34	Subtract line 33 from line 32. If zero or less, enter zero			34		
35	Add lines 31 and 34			35		
36	Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990**			36		

Part V **Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value**

37 Check here if you elect out of the installment method ▶ ☐
38 Enter the face amount of the note or other obligation ▶ ....
39 Enter the percentage of valuation of the note or other obligation ▶ ....

Part VI **Reconcile Forms 1099-B for Bartering Transactions**
(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

			Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule	
40	Form 1040, line 22	40		
41	Schedule C (Form 1040)	41		
42	Schedule D (Form 1040)	42		
43	Schedule E (Form 1040)	43		
44	Schedule F (Form 1040)	44		
45	Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45		
46	Total (add lines 40 through 45)	46		

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Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

For further information on computing *Capital Loss Carryovers from 1989 to 1990*, refer the taxpayer to Publication 544 or to a professional tax preparer.

Summary

Sales of stocks are reported to taxpayers by their brokers on Form 1099-B. Taxpayers report all sales of stocks and reconcile their Forms 1099-B on Schedule D (Form 1040). Sales are reported by the period of time the taxpayer held the stock—either short term or long term. The adjusted basis of a stock must be known to determine whether a sale resulted in a gain or loss.

Answers to Exercises

1. a. Short-term gain.
   b. Long-term gain.
   c. Short-term gain.
   d. Short-term gain.
2. a. Gain.
   b. Loss.
3. See filled-in Exhibit 4.
4. See filled-in Exhibits 8 and 9.
5. See filled-in Exhibits 11 and 12.

Exhibit 4, filled-in

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040: MARY LEWIS

Your social security number: 149 00 0100

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples 1 4,600 00

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1) .						
2c Total (add column (d) of lines 2a and 2b) . ► 2c						
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14 .	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries . .	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g) . .	7	( )	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or other basis	(f) LOSS	(g) GAIN
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
15 Sh. QX1	6/15/88	6/21/89	500 -	1,500 -	1,000 -	
50 sh. KYZ	3/10/88	5/18/89	4,100 -	1,100 -		3,000 -
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1) .						
9c Total (add column (d) of lines 9a and 9b) . ► 9c			4,600 -			
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14 .	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries . .	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g) .	16	(1,000 -)	3,000 -
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		2,000 -

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit 8, filled-in

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

► **Attach to Form 1040.** ► **See Instructions for Schedule D (Form 1040).**
► **For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).**

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040: Charles C. Cain

Your social security number: 010 00 2345

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples	1	4,300 -

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
200 sh. XOX	1/12/89	6/28/89	600 -	250 -		350 -
10 sh. MOM	10/6/88	4/1/89	300 -	575 -	275 -	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total (add column (d) of lines 2a and 2b) ► 2c			900 -			
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

PROOF COPY

		(f)	(g)
3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	(275 -)	350 -
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		75 -

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a)	(b)	(c)	(d)	(e)	(f) LOSS	(g) GAIN
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
100 Sh. ABC	5/7/87	5/12/89	3,000 -	1,000 -		2,000 -
50 sh. XYZ	6/10/87	1/6/89	400 -	500 -	100 -	
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total (add column (d) of lines 9a and 9b) ► 9c			3,400 -			
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

		(f)	(g)
10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	(100 -)	2,000 -
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		1,900 -

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit 9, filled-in

Schedule D (Form 1040) 1989 Attachment Sequence No. 12A Page 2

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.)

Your social security number

Part III Summary of Parts I and II

18	Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19	18	1,975 –
19	If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:		
a	The (loss) on line 18; **or**		
b	($3,000) or, if married filing a separate return, ($1,500)	19	( )

Note: *When figuring whether 19a or 19b is* **smaller**, *treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20	Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)**	20	

Note: *For lines 21 through 36, treat all amounts as* positive.

21	Enter the loss shown on line 19	21	
22	Enter the amount shown on Form 1040, line 36	22	
23	Combine lines 20, 21, and 22. If zero or less, enter zero	23	
24	Enter the **smaller** of line 21 or line 23	24	

Section B.—Figure Your Short-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25	Enter the loss shown on line 8			25	
26	Enter the gain, if any, shown on line 17	26			
27	Enter the amount shown on line 24	27			
28	Add lines 26 and 27			28	
29	Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990**			29	

Section C.—Figure Your Long-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 17 and line 19.)

30	Enter the loss shown on line 17			30	
31	Enter the gain, if any, shown on line 8			31	
32	Enter the amount shown on line 24	32			
33	Enter the amount, if any, shown on line 25	33			
34	Subtract line 33 from line 32. If zero or less, enter zero			34	
35	Add lines 31 and 34			35	
36	Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990**			36	

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method ▶ ☐
38 Enter the face amount of the note or other obligation ▶ ....
39 Enter the percentage of valuation of the note or other obligation ▶ ....

Part VI Reconcile Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

			Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40	Form 1040, line 22	40	
41	Schedule C (Form 1040)	41	
42	Schedule D (Form 1040)	42	
43	Schedule E (Form 1040)	43	
44	Schedule F (Form 1040)	44	
45	Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45	
46	Total (add lines 40 through 45)	46	

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Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Exhibit 11, filled-in

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No 1545 0074
1989
Attachment Sequence No 12A

Name(s) shown on Form 1040: Jane C. Perry
Your social security number: 987 00 7777

1	Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples	1	9,200 —

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
75 Sh. AOK	11/12/88	4/13/89	3,400 —	4,000 —	600 —	
100 Sh MDP	1/14/89	5/11/89	800 —	1,900 —	1,100 —	
200 Sh. KYZ	1/26/89	6/1/89	500 —	3,000 —	2,500 —	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total (add column (d) of lines 2a and 2b) ► 2c			4,700 —			
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

			(f)	(g)
3	Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4	Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5	Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6	Short-term capital loss carryover	6		
7	Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	(4,200 —)	
8	Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		(4,200 —)

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or other basis	(f) LOSS	(g) GAIN
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
100 Sh. KMY	2/8/87	3/9/89	3,000 —	2,000 —		1,000 —
50 Sh. OPQ	10/12/87	5/26/89	1,500 —	1,000 —		500 —
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total (add column (d) of lines 9a and 9b) ► 9c			4,500 —			
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

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			(f)	(g)
10	Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11	Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12	Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13	Capital gain distributions	13		
14	Enter gain from Form 4797, line 7 or 9	14		
15	Long-term capital loss carryover	15		
16	Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	( )	1,500 —
17	Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		1,500 —

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit 12, filled-in

Schedule D (Form 1040) 1989 Attachment Sequence No. **12A** Page **2**

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.) | **Your social security number**

Part III Summary of Parts I and II

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 . . . . **18** (2,700 -)

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) . . . . **19** (2,700 -)

Note: *When figuring whether 19a or 19b is* **smaller**, *treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** **20**

Note: *For lines 21 through 36, treat all amounts as* positive.

21 Enter the loss shown on line 19 . . . . **21**

22 Enter the amount shown on Form 1040, line 36 . . . . **22**

23 Combine lines 20, 21, and 22. If zero or less, enter zero **23**

24 Enter the **smaller** of line 21 or line 23 . . . . **24**

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 . . . . **25**

26 Enter the gain, if any, shown on line 17 . . . . . . **26**

27 Enter the amount shown on line 24 . . . . . . **27**

28 Add lines 26 and 27. . . . . **28**

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990**. **29**

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 . . . . **30**

31 Enter the gain, if any, shown on line 8 . . . . **31**

32 Enter the amount shown on line 24 . . . . . . **32**

33 Enter the amount, if any, shown on line 25 . . . . . . **33**

34 Subtract line 33 from line 32. If zero or less, enter zero **34**

35 Add lines 31 and 34. . . . . **35**

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** **36**

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method . . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . . ▶ ....

39 Enter the percentage of valuation of the note or other obligation . . . . ▶

Part VI Reconcile Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

		Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40 Form 1040, line 22	**40**	
41 Schedule C (Form 1040)	**41**	
42 Schedule D (Form 1040)	**42**	
43 Schedule E (Form 1040)	**43**	
44 Schedule F (Form 1040)	**44**	
45 Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	**45**	
46 Total (add lines 40 through 45)	**46**	

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Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Module IV

Lesson 2

Sale of Home

Objectives

At the end of this lesson you will be able to:

1. Explain the rules for postponing and excluding gain from the sale of a main home.
2. Determine who qualifies to postpone or exclude gain.
3. Complete Form 2119, *Sale of Your Home.*

Contents

Introduction

Main Home

Using Form 2119

Summary

Introduction

Gain from selling property must generally be included in gross income for the year the property is sold. However, there are exceptions to this rule when a main home is sold. One exception requires certain taxpayers to postpone paying tax on all or part of the gain if the home is replaced with another main home. The other exception allows certain taxpayers who are 55 or older to exclude all or part of the gain from their gross income.

Only taxpayers who meet certain requirements qualify for these exceptions. Unless the requirements are met, the gain from selling a home must be included in gross income.

Taxpayers who sell a home must file Form 2119, *Sale of Your Home,* to figure how much to postpone or exclude and how much, if any, to include in gross income.

Main Home

A main home is the home where the taxpayer lives most of the time. The home may be a house, houseboat, mobile home, cooperative apartment, or a condominium house or apartment.

If a taxpayer alternates between two homes, the main home is the one where he or she lives most of the time.

If a taxpayer owns more than one home, only the sale of the main home qualifies for the special tax treatment. The following examples illustrate main home.

Example

Paul Riley owns and lives in a house in town. He also owns a beach cottage that he uses in the summer. The house in town is Paul's main home; the beach cottage is not.

Example

Fred Garfield owns a house in Houston, but he lives in Dallas in a house that he rents. The rented house in Dallas is his main home, not the house he owns in Houston.

Exercise 1

Joe Fisher lives in a house in New York City. He also owns a summer house in Lake George, N.Y., which he uses occasionally for entertainment. Which is his main home?

Answer ____________________

Exercise 2

Jo Ann Custer owns a house but lives in an apartment for which she pays rent. Which is her main home?

Answer ____________________

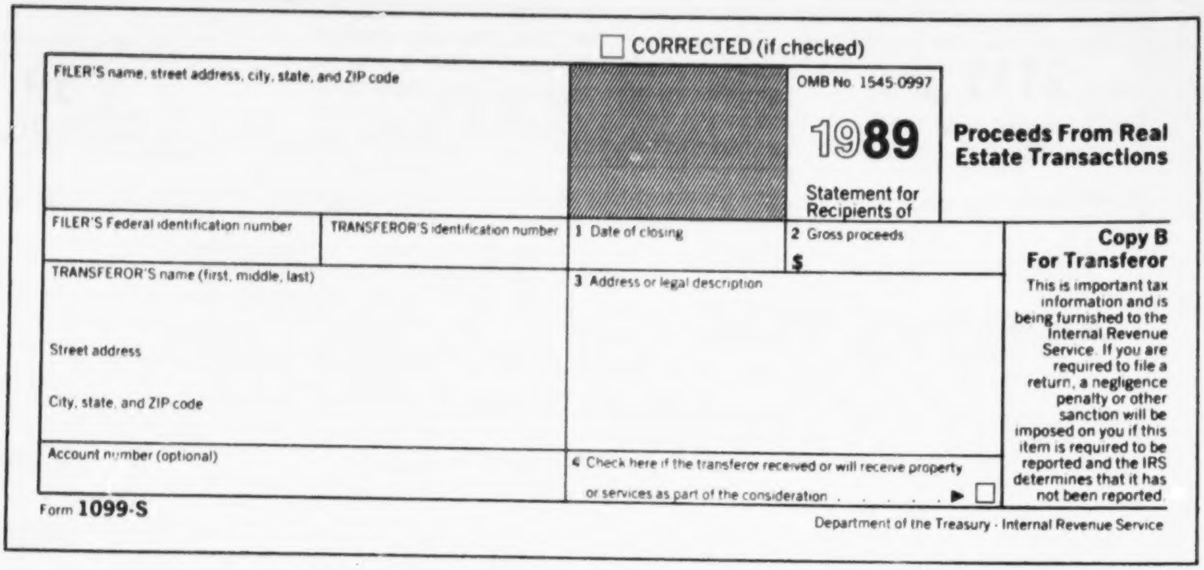
Form 1099-S

Transactions involving the sale or exchange of most residential real estate property must be reported to the IRS. This is done by using Form 1099–S, *Statement for Recipients of Proceeds From Real Estate Transactions.* Generally, the person responsible for closing the real estate transaction (usually a real estate broker or settlement attorney), must furnish Copy A of this statement to the IRS and furnish Copy B to the seller.

The seller of real estate transferred that was a main home must file Form 2119 (discussed in this lesson), with the income tax return (Form 1040). If the real estate transferred was NOT a main home, the transaction must be shown in the applicable parts of Form 4797, *Sales of Business Property,* Form 6252, *Installment Sale Income,* and/or Schedule D (Form 1040), *Capital Gains and Losses.*

Copy B of Form 1099–S is shown as an exhibit here. This is the copy the seller will be furnished.

Exhibit 1



☐ CORRECTED (if checked)

FILER'S name, street address, city, state, and ZIP code

OMB No. 1545-0997

1989

Statement for Recipients of

Proceeds From Real Estate Transactions

FILER'S Federal identification number

TRANSFEROR'S identification number

1 Date of closing

2 Gross proceeds

$

Copy B
For Transferor

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.

TRANSFEROR'S name (first, middle, last)

Street address

City, state, and ZIP code

3 Address or legal description

Account number (optional)

4 Check here if the transferor received or will receive property or services as part of the consideration . . . . . . ▶ ☐

Form **1099-S**

Department of the Treasury - Internal Revenue Service

Using Form 2119

Part I— Facts About You and Your Home

The top portion of Form 2119 (Part I) calls for information needed to determine whether the taxpayer qualifies to exclude gain or to postpone the tax on gain. Lines 1a–3f, illustrated as Exhibit 2, must be completed by every person who sells a main home.

Exhibit 2

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.) Last name	**Your social security number**
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address)	**Spouse's social security number**
	City, town, or post office, state, and ZIP code	

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Part I **Facts About You and Your Home**

		Yes	No
1a	Date former main home was sold ▶		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?		
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		
3a	Were you 55 or older on date of sale?		
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**		
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4	
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	
6	Subtract line 5 from line 4. This is the amount realized	6	
7	Basis of home sold (See Instructions.)	7	
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** ***(Complete this part only if you checked "Yes" to 3d.)***

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	

Part IV **Figure Gain To Be Postponed and Adjusted Basis of New Home** ***(Complete this part if you bought another main home.)***

11	Fixing-up expenses. (See Instructions for time limits.)	11	
12	Subtract line 11 from line 6 (adjusted sales price)	12	
13a	Cost of new home	13a	
b	Enter the date you moved into your new main home ▶		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete

Your signature ▶ ____________ Date ____________ Spouse's Signature ▶ ____________ Date ____________

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Taxpayers who sell their main home must file Form 2119. All taxpayers who use the form complete Part II. Taxpayers who must include their full gain in income use only this part, and taxpayers who have a loss on the sale stop at line 8. Taxpayers who postpone gain will use Parts II and IV, and taxpayers who choose the 55-or-older exclusion will use Parts II and III. If the exclusion is chosen, Part IV will also be used if there is a gain in excess of the exclusion and another main home is purchased.

For detailed information about selling a home, refer taxpayers to Publication 523, *Tax Information on Selling Your Home.*

Part II— Figure Your Gain

Part II is used to see whether the sale of the old home resulted in a gain or loss and to figure the amount of any gain.

Line 4— Selling price of home. The figure on line 4 is the total amount received for the property, including money, the amount of all notes, mortgages, or other debts that were part of the sale, and the fair market value of other property received.

Line 5— Expense of sale. Selling expenses are amounts the taxpayer paid to sell the home. These include commissions or brokers' fees, points or loan placement fees, termite inspection, recording fees, survey fees, and advertising expenses.

In some cases, certain selling expenses may be deducted as moving expenses. Selling expenses that are allowed as moving expenses may not be deducted from the selling price or added to the purchase price of a new home.

Line 6— Subtract line 5 from line 4. This is the amount realized.

Line 7— Basis of home sold. The basis of a personal home is generally its cost or purchase price. Cost includes cash, debt obligations (such as mortgages), and other property given in exchange. Certain closing costs, such as commissions and legal and recording fees, are included in the basis. Points or loan origination fees paid to the lender that do not qualify as interest expense may not be added to the basis of the residence.

Example

John Foster bought a mobile home for $15,000 cash and assumed a $25,000 mortgage. The cash and the amount of the mortgage are added together to determine the cost basis of $40,000.

If a home is acquired other than by purchase, the taxpayer must generally use a basis other than cost. Fair market value is usually important in these cases. You should refer taxpayers in this situation to a professional tax preparer.

Adjusted basis. A taxpayer may have to make certain adjustments to the cost or other basis of a home. Increases to basis arise from improvements, additions, and other capital expenditures. Reductions in basis result from fire losses or other casualties, payments received for easements or rights-of-way, residential energy credits claimed, and depreciation deductions if the home was used for business or rental purposes. The postponed gain on the sale of a home is also a reduction in the basis of the new home.

Capital expenditures. An expenditure for a capital improvement increases basis. Capital improvements generally are items that will increase the value of property or prolong its useful life. For example, installing new fixtures, adding rooms to a house, and bricking the outside of a frame building are capital improvements. The cost of repairs that neither add to the value of the property nor prolong its life are not capital improvements. For example, painting a house or replacing tiles on a roof are repairs that will not increase the basis of property. However, if items that would otherwise be considered repairs are done as part of an extensive remodeling or restoration of the taxpayer's home, the entire job is a capital improvement.

Example

On August 24, 1980, George and Betty Kemper bought a houseboat for $30,000, and they live on it. In 1983, they added a sundeck that cost them $7,000. This expenditure is considered a capital improvement, because it increased the value of the property. The $7,000 cost is added to the original cost of the Kempers' home, resulting in an adjusted basis of $37,000.

Exercise 3

Stanley and Helen Ellis made some improvements to their home. Mark the improvements that will increase the property's basis.

a. Painted garage.
b. Installed built-in dishwasher.
c. Had major landscaping done.
d. Installed a new roof.
e. Installed picture window in living room.

Recordkeeping. A person who owns a home, or other property that replaces it, should save receipts and other records for all improvements, additions, and other items that affect the basis. Ordinarily these records should be saved for at least 3 years after filing a return reporting disposition of the property. However, if a taxpayer uses the basis of an old home to figure the basis of a new home, such as when an old home is sold and the tax on the gain is postponed, he or she should keep those records as long as they are relevant for tax purposes.

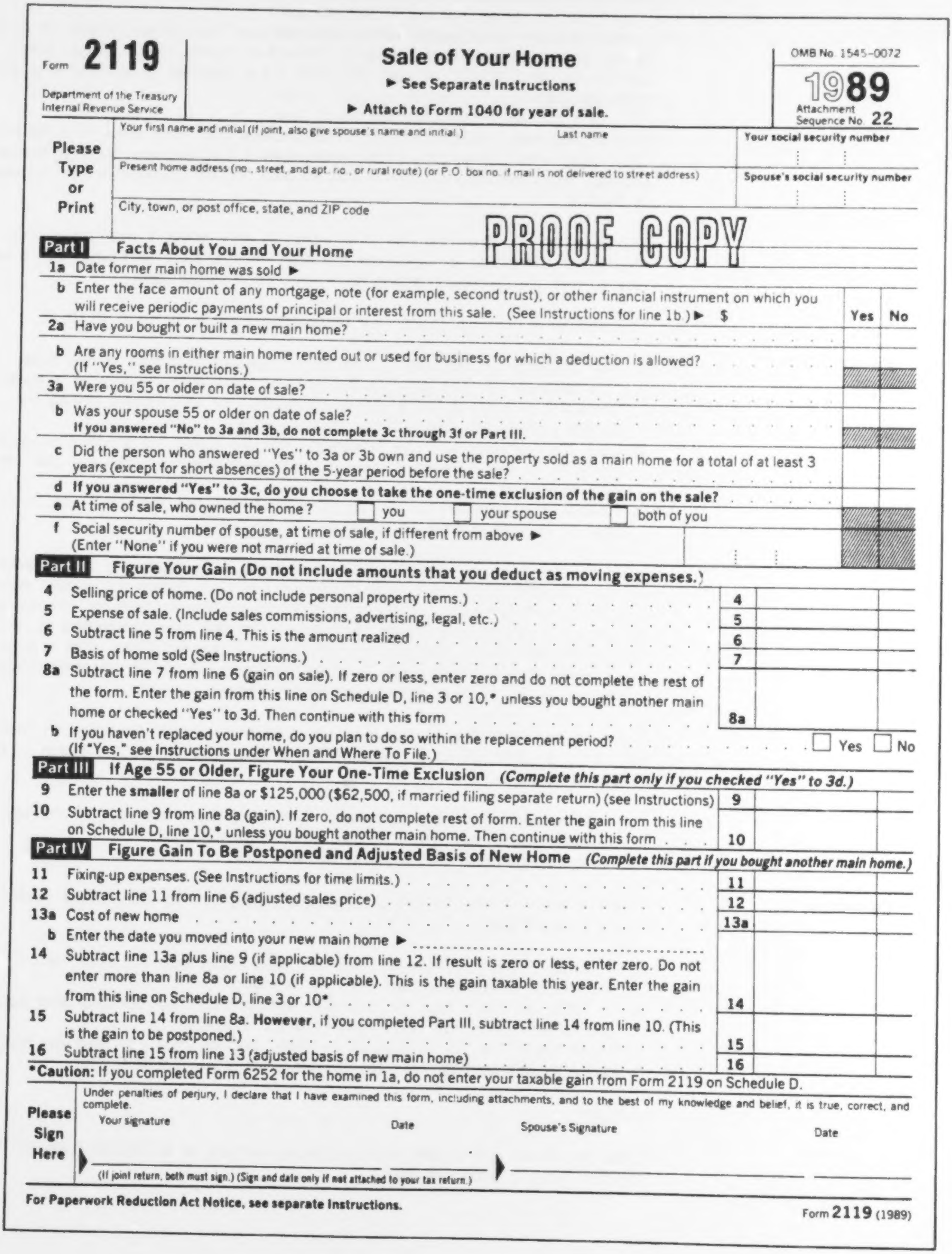
Line 8a— Gain on sale. The basis on line 7 is subtracted from the amount realized, line 6. If the result is a loss, enter zero on line 8a and stop there. A loss on the sale is not deductible and does not affect the basis of a new home. If the result is a gain, enter the amount on line 8. You will use this figure, the gain on the sale of the old home, as you complete the taxpayer's Form 2119. If the taxpayer is not replacing the old home or electing the 55-or-older exclusion, enter the gain from line 8a on the taxpayer's Schedule D (Form 1040), *Capital Gains and Losses.*

Taxpayers who sold their old home on the installment method should file Form 6252, *Installment Sale Income,* instead of Schedule D. You should refer these taxpayers to a professional preparer.

Exercise 4

Randy Martin bought his house for $35,000 in 1972. In 1981 he added a porch costing $2,500, and he had the driveway paved for $2,100. Randy sold his home for $95,000 in 1989. He received $70,000 and the buyer assumed his $25,000 mortgage. He paid $6,000 to a real estate broker to sell the house and $300 for real estate taxes that accrued for the part of 1989 before he sold. Complete Part II of Form 2119 (Exhibit 3) to determine the gain.

Exhibit 3



Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.) Last name	**Your social security number**
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address)	**Spouse's social security number**
	City, town, or post office, state, and ZIP code	

PROOF COPY

Part I **Facts About You and Your Home**

		Yes	No
1a	Date former main home was sold ▶		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?		
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		
3a	Were you 55 or older on date of sale?		
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**		
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4	
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	
6	Subtract line 5 from line 4. This is the amount realized	6	
7	Basis of home sold (See Instructions.)	7	
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	

Part IV **Figure Gain To Be Postponed and Adjusted Basis of New Home** *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	
12	Subtract line 11 from line 6 (adjusted sales price)	12	
13a	Cost of new home	13a	
b	Enter the date you moved into your new main home ▶		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	
15	Subtract line 14 from line 8a. **However,** if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature Date Spouse's Signature Date

▶ ▶

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Part III— If Age 55 or Older, Figure Your One-Time Exclusion

A taxpayer who qualifies to do so, may exclude from gross income all or part of the gain on the sale or exchange of a main home. The taxpayer may exclude up to $125,000 of gain ($62,500 if the taxpayer is married and files a separate return).

The taxpayer can make the election to exclude gain only once in a lifetime. The balance of the gain ***must*** be postponed if the taxpayer buys or builds another home within certain time frames that will be covered in the discussion of Part IV.

Because the taxpayer can use this exclusion only once, it may be to the taxpayer's advantage to postpone the gain on this sale, and wait until a later sale to use the exclusion when there may be a larger gain.

The exclusion may be chosen by completing Part III of Form 2119, if:

1. The taxpayer (or spouse) is age 55 or older on the date of the sale;
2. The taxpayer (or spouse) has owned and used the property as a main home for at least 3 years (either continuous or interrupted) during the 5–year period that ends on the date of sale;
3. Both the taxpayer and the taxpayer's spouse make the election to exclude the gain, in the case of a taxpayer who was married when the old home was sold; and
4. Neither the taxpayer nor the taxpayer's spouse has excluded gain on the sale or exchange of a home after July 26, 1978.

* However, to meet the 3 of 5-year requirement, a taxpayer will be considered to have lived in his or her main home for any time during the 5-year period that he or she became physically or mentally unable to care for himself or herself and resided in a facility (including a nursing home) licensed by a state or political subdivision to care for individuals in that condition. The taxpayer must have owned and actually lived in the home as his or her main home for a total of a least 1 year during the 5-year period.

Time to exclude gain. A taxpayer may make or revoke a choice to exclude gain from a particular sale or exchange at any time before the latest of the following dates:

—Three years from the due date of the return for the year of the sale,
—Three years from the date the return was filed, or
—Two years from the date the tax was paid.

Exercise 5

Indicate which of the following taxpayers qualify for the 55-or-older exclusion of up to $125,000.

a. In 1989, Roger Hill, age 77, and his wife, Judy, age 70, sold the houseboat where they had lived for 5 years.
b. In 1989, Jill Hays, age 61, sold her condominium for $85,000 and had a gain of $54,000. She had lived there for 3 years.
c. Peter Hood was 55 on August 1, 1989, and on that day sold the mobile home where he had lived for 10 years for a gain of $19,000.

Answer ______________________________

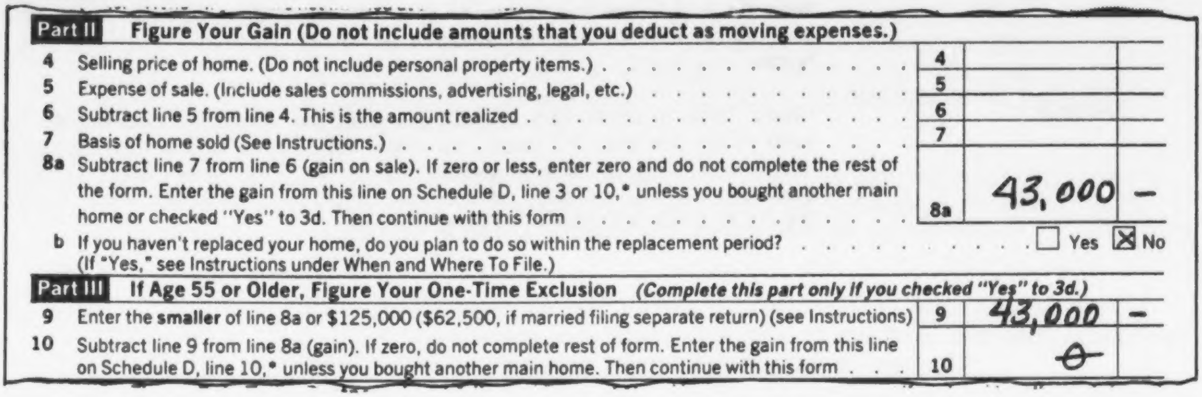
Line 9— Enter the smaller of the line 8a amount or $125,000 ($62,500 if married filing a separate return).

Line 10— Gain. This amount is the difference between lines 8a and 9. If lines 8a and 9 are the same, or line 9 is more than line 8a, enter zero and stop there; the taxpayer will exclude all of the gain on the sale of the old home.

Example

Henry Tripp is single and age 61. He sold the house he had owned and lived in for the past 20 years. He does not plan to buy a new home and chooses to take the 55-or-older exclusion. Mr. Tripp has never taken the exclusion before. His gain on the sale (line 8a) is $43,000. Parts II and III of his Form 2119 are shown here (Exhibit 4).

Exhibit 4



Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4		
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5		
6	Subtract line 5 from line 4. This is the amount realized	6		
7	Basis of home sold (See Instructions.)	7		
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	43,000	–
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.)		☐ Yes	☒ No

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	43,000	–
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	-0-	

Exercise 6

Tom and Mary Turner are both 63 years old. On May 6, 1989, they sold the house that they owned and lived in for the past 30 years. The selling price was $175,000, and the Turners paid selling expenses of $11,000. The house cost them $24,000, and they paid $2,000 extra to have a garage added. Mr. and Mrs. Turner spent $500 in fixing-up expenses in March 1989. They plan to use the 55-or-older exclusion. On May 16, 1989, they bought a new house for $42,000, and moved in the next day. Complete Parts II, III, and IV of their Form 2119 (Exhibit 5).

Exhibit 5

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.) Last name	Your social security number
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address)	Spouse's social security number
	City, town, or post office, state, and ZIP code	

PROOF COPY

Part I **Facts About You and Your Home**

		Yes	No
1a	Date former main home was sold ▶		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?		
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		
3a	Were you 55 or older on date of sale?		
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**		
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4	
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	
6	Subtract line 5 from line 4. This is the amount realized	6	
7	Basis of home sold (See Instructions.)	7	
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.)	☐ Yes	☐ No

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	

Part IV **Figure Gain To Be Postponed and Adjusted Basis of New Home** *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	
12	Subtract line 11 from line 6 (adjusted sales price)	12	
13a	Cost of new home	13a	
b	Enter the date you moved into your new main home ▶		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature	Date	Spouse's Signature	Date
▶		▶	

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Part IV— Figure Gain to be Postponed and Adjusted Basis of New Home

If the taxpayer (and, if married, his or her spouse) buys and occupies a home to replace the one that was sold, some or all of the gain must be postponed if the replacement home is bought (or built) within the 4–year period that begins 2 years before and ends 2 years after the date of the sale of the old home. This is true even if one spouse dies after the old home is sold and before the new home is purchased. Any costs attributable to periods before or after the 4–year period may not be considered. Part IV is used to figure how much gain will be postponed and what the adjusted basis of the new home will be.

Do not use Part IV for taxpayers who choose the 55-or-older exclusion unless they have more gain than they can exclude ***and*** purchase another home. However, since a taxpayer may take the exclusion only once, he or she may be better off postponing the gain on this sale and using the exclusion later.

Example

Bob Oakland sold his condominium on July 25, 1989. His replacement period runs from July 25, 1987, to July 25, 1991.

Suspension of replacement period. The 2–year replacement period after the sale of the old home is suspended while the taxpayer has a tax home (the place where the taxpayer lives and works) outside the United States. The suspension applies only if the taxpayer's stay abroad begins before the 2–year replacement period ends. The replacement period, plus the period of suspension, cannot end later than 4 years after the date the old home was sold.

For certain members of the military serving overseas or required to live at a remote U.S. base, the suspension period and replacement period together may be extended for up to 8 years. For more information, see Publication 678-M, *Military Module*.

If the taxpayer is married, and both spouses use the new home (and also used the old home), as their main home, the replacement period is suspended while either spouse has a tax home outside the United States. The replacement period, plus the period of suspension, can end no later than 4 years after the date the old home was sold.

Example

James Morton sold his home on June 24, 1989. His replacement period began on this date. On December 23, 1989, he was transferred to a foreign country. James had used 6 months of his replacement period before his transfer. From December 23, 1989, to August 28, 1991, when he returns to the United States, his replacement period is suspended, but then it resumes as of August 28, 1991. James will have until February 28, 1993 (18 months), to buy and live in a new home.

Exercise 7

Mildred Hart sold her home on August 1, 1989. What is the latest date for her to buy and occupy a home and postpone the gain from the sale?

Answer ______________________________

Exercise 8

Indicate which of these taxpayers met the replacement period requirement.

a. Fran sold her old house on November 19, 1988, and bought a new one on January 10, 1989. She moved in January 15, 1989.
b. Mike started building a new home May 25, 1987. He moved into it on June 10, 1988, and sold his old home on April 30, 1989.

c. Liz sold her condominium on August 1, 1988, and on January 4, 1989, bought a home already built. She moved into it on January 15, 1989.

Answer ______________________________

Qualifying replacement home. For gain to be postponed, the new home must qualify as a replacement home.

If the taxpayer buys and sells a new home before the date the old home is sold, the new one does not qualify for postponing gain.

If the taxpayer sells the old home and invests in a retirement project that will provide living quarters, personal care, etc., but that does not give the taxpayer any legal interest in the property, the taxpayer has not bought a replacement home that qualifies for postponing gain.

If more than one main home is bought during the replacement period, only the last one bought during that period can qualify for postponing gain unless the sale is because of a work-related move for which moving expenses can be deducted. See Publication 523 for details.

Line 11— Fixing-up expenses. These are decorating and repair expenses incurred only to help sell the old property. They are used only in determining the part of the gain on which the tax is postponed. They are not deductible in figuring taxable income, and they are not used in figuring either the basis of the old home or the amount realized from its sale. Fixing-up expenses must have been incurred for work performed within 90 days before the contract to sell was signed, and they must have been paid no later than 30 days after the sale.

Line 12— Adjusted sales price. The adjusted sales price of the old home is the amount realized, line 6, less fixing-up expenses, line 11. The tax treatment of the gain on the sale of the old home depends on whether the adjusted sales price is more or less than the purchase price of the new home.

Line 13a— Cost of new home. The cost of the new home includes cash payments, any mortgage or debt on the property, and commissions and other expenses of the purchase. The taxpayer must have incurred all of these items during the replacement period and must not have deducted them as moving expenses. The cost of the new home must be at least as much as the adjusted sales price of the old one (line 12) for the taxpayer to postpone all of the gain from the sale. On line 13b, enter the date you moved into your new home.

Line 14— Gain taxable this year. If the adjusted sales price of the old home (line 12) is more than the cost of the new one (line 13a), there will be a taxable gain this year. It is the lower of:

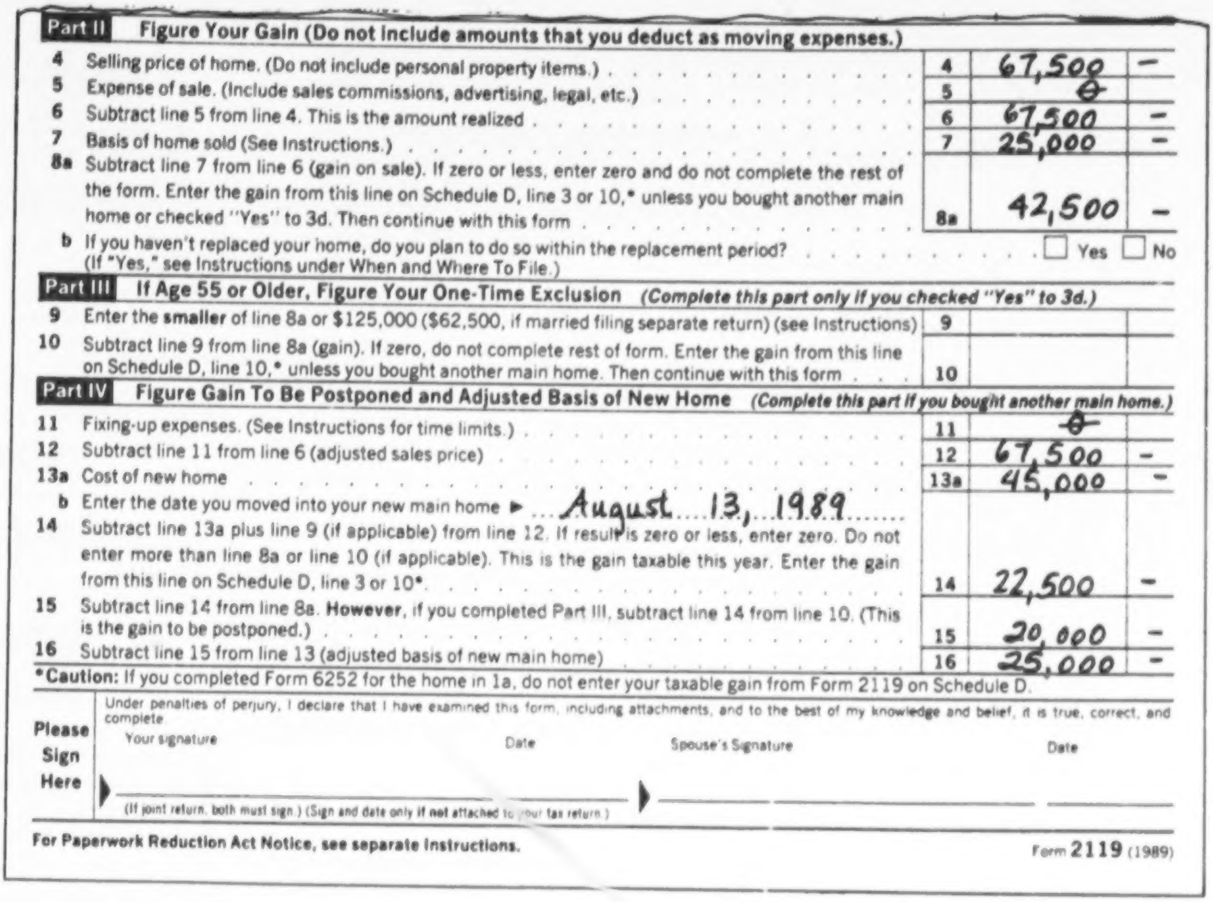
- The gain on the sale (line 8a), or
- The difference between lines 12 and 13a.

The gain taxable this year is entered on line 14 and on Schedule D (Form 1040).

Example

On April 17, 1975, Carl and Susan Boulder, both aged 27, bought a house, their first, for $25,000. They had no capital improvements. On June 22, 1989, the Boulders sold this house for $67,500. They had no selling expenses. On August 13, 1989, they bought a duplex house that cost $45,000. Because this amount is less than the adjusted sales price of the house they sold, the Boulders must report part of their gain in the year of sale. The taxable gain (line 14) is $22,500, which they enter on Schedule D (Form 1040). The gain they postpone ($20,000 on line 15), reduces their basis in their new home to $25,000. See Exhibit 6.

Exhibit 6



Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4	67,500	—
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	0	
6	Subtract line 5 from line 4. This is the amount realized	6	67,500	—
7	Basis of home sold (See Instructions.)	7	25,000	—
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	42,500	—
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.)		☐ Yes	☐ No

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9		
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10		

Part IV **Figure Gain To Be Postponed and Adjusted Basis of New Home** *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	0	
12	Subtract line 11 from line 6 (adjusted sales price)	12	67,500	—
13a	Cost of new home	13a	45,000	—
b	Enter the date you moved into your new main home ► August 13, 1989			
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	22,500	—
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	20,000	—
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	25,000	—

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature ► ______ Date ______ Spouse's Signature ► ______ Date ______

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions. Form **2119** (1989)

Exercise 9

On September 15, 1983, Claude and Karen Brooks bought a condominium for $40,000. They made no capital improvements. On March 3, 1989, they sold the condo for $55,000. They had selling costs of $3,300. On June 17, 1989, they bought and moved into a new condominium that cost $45,000. Neither of them is 55 or older. Use the Form 2119 shown in Exhibit 7 to figure the part of their gain that is taxable this year.

Exhibit 7

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment
Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.)	Last name	Your social security number
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address)		Spouse's social security number
	City, town, or post office, state, and ZIP code		

PROOF COPY

Part I Facts About You and Your Home

		Yes	No
1a	Date former main home was sold ▶		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?		
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		
3a	Were you 55 or older on date of sale?		
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**		
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II Figure Your Gain (Do not include amounts that you deduct as moving expenses.)

4	Selling price of home. (Do not include personal property items.)	4	
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	
6	Subtract line 5 from line 4. This is the amount realized	6	
7	Basis of home sold (See Instructions.)	7	
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III If Age 55 or Older, Figure Your One-Time Exclusion *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	

Part IV Figure Gain To Be Postponed and Adjusted Basis of New Home *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	
12	Subtract line 11 from line 6 (adjusted sales price)	12	
13a	Cost of new home	13a	
b	Enter the date you moved into your new main home ▶		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature ▶ | Date | Spouse's Signature ▶ | Date

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Line 15— Gain to be postponed. Any gain not entered on line 14 is entered on line 15. It is postponed, not forgiven. If the new home is sold later, the gain may continue to be postponed or it may be reported as income, depending on whether the taxpayer buys and occupies a qualifying replacement home or is eligible to exclude the gain.

Line 16— Adjusted basis of new main home. The adjusted basis of the new home is the difference between the cost of the new home (line 13a) and the postponed gain (line 15). The postponed gain lowers the taxpayer's basis in the new home. The taxpayer's adjusted basis on line 16 is used as the starting point for figuring basis the next time the taxpayer sells his or her home.

Exercise 10

In 1973, James C. Weber (Soc. Sec. 456–00–7890) and his wife, Betty M., bought a house for $26,000. On May 16, 1989, the Webers, both age 62, sold their house for $182,000. They had selling expenses of $13,000, and no fixing-up expenses. They did not take back a mortgage or note. They had not used the house for business or rented out any part of it.

On June 10, 1989, they bought a new house for $87,000 and moved in the same day. They wish to take the exclusion and postpone tax on any remaining gain. Complete all of Form 2119 for Mr. and Mrs. Weber (Exhibit 8).

Exhibit 8

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment
Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.)	Last name	Your social security number
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address)		Spouse's social security number
	City, town, or post office, state, and ZIP code		

PROOF COPY

Part I **Facts About You and Your Home**

		Yes	No
1a	Date former main home was sold ▶		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?		
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)	▨	▨
3a	Were you 55 or older on date of sale?		
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**	▨	▨
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you	▨	▨
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)	▨	▨

Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4	
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	
6	Subtract line 5 from line 4. This is the amount realized	6	
7	Basis of home sold (See Instructions.)	7	
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	

Part IV **Figure Gain To Be Postponed and Adjusted Basis of New Home** *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	
12	Subtract line 11 from line 6 (adjusted sales price)	12	
13a	Cost of new home	13a	
b	Enter the date you moved into your new main home ▶		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature	Date	Spouse's Signature	Date
▶		▶	

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Summary

In this lesson you learned how to complete Form 2119 for taxpayers who sold their main home this year. You studied how to figure and report the following:

1. Gain taxable in the year of sale;
2. The once-in-a-lifetime exclusion of up to $125,000 in gain for taxpayers who are age 55 or older when they sell their home;
3. Amount of gain that can be postponed when the taxpayer replaces his or her home with another qualifying home; and
4. The adjusted basis of the new home.

Answers to Exercises

1. House in New York City.
2. Apartment.
3. b, c, d, and e.
4. See filled-in Exhibit 3.
5. All qualify for the exclusion.
6. See filled-in Exhibit 5.
7. August 1, 1991.
8. All meet the requirement.
9. See filled-in Exhibit 7.
10. See filled-in Exhibit 8.

Exhibit 3, filled-in

Form **2119**
Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions
▶ Attach to Form 1040 for year of sale.

OMB No. 1545–0072
1989
Attachment Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.) Randy	Last name Martin	**Your social security number** 000 00 1515
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address) 1414 Liner Dr.		**Spouse's social security number**
	City, town, or post office, state, and ZIP code Coral City, NM 00001		

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Part I **Facts About You and Your Home**

		Yes	No
1a	Date former main home was sold ▶		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?		
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)	▨	▨
3a	Were you 55 or older on date of sale?		
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**	▨	▨
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you	▨	▨
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)	▨	▨

Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4	95,000	–
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	6,000	–
6	Subtract line 5 from line 4. This is the amount realized	6	89,000	–
7	Basis of home sold (See Instructions.)	7	39,600	–
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	49,400	
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No			

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9		
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10		

Part IV **Figure Gain To Be Postponed and Adjusted Basis of New Home** *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11		
12	Subtract line 11 from line 6 (adjusted sales price)	12		
13a	Cost of new home	13a		
b	Enter the date you moved into your new main home ▶			
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14		
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15		
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16		

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature ▶ ____________ Date ____________ Spouse's Signature ▶ ____________ Date ____________

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form 2119 (1989)

Exhibit 5, filled-in

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print

Your first name and initial (If joint, also give spouse's name and initial.): Tom and Mary

Last name: Turner

Your social security number: 000 00 0000

Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address): 1040 ABC Dr.

Spouse's social security number: 000 00 0000

City, town, or post office, state, and ZIP code: Town, FL 33333

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Part I Facts About You and Your Home

		Yes	No
1a	Date former main home was sold ▶ May 6, 1988		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?	✓	
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		✓
3a	Were you 55 or older on date of sale?	✓	
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**	✓	
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?	✓	
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**	✓	
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☒ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II Figure Your Gain (Do not include amounts that you deduct as moving expenses.)

4	Selling price of home. (Do not include personal property items.)	4	175,000 -
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	11,000 -
6	Subtract line 5 from line 4. This is the amount realized	6	164,000 -
7	Basis of home sold (See Instructions.)	7	26,000 -
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	138,000 -
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III If Age 55 or Older, Figure Your One-Time Exclusion *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	125,000 -
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	13,000 -

Part IV Figure Gain To Be Postponed and Adjusted Basis of New Home *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	500 -
12	Subtract line 11 from line 6 (adjusted sales price)	12	163,500 -
13a	Cost of new home	13a	42,000 -
b	Enter the date you moved into your new main home ▶ May 17, 1989		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	0
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	13,000 -
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	29,000 -

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature: Tom Turner — Date: 3-20-89

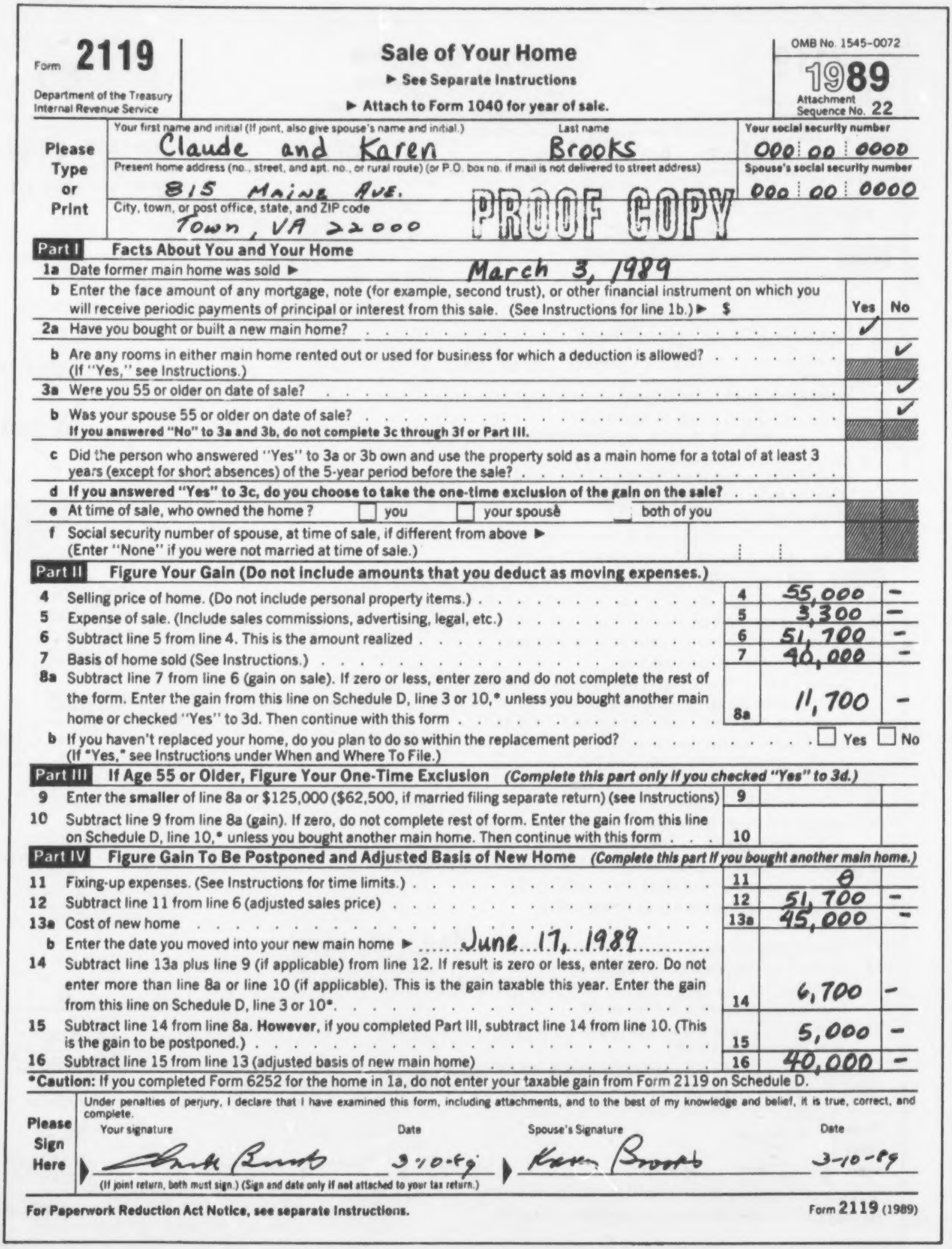
Spouse's Signature: Mary Turner — Date: 3-20-89

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Exhibit 7, filled-in



Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print

Your first name and initial (If joint, also give spouse's name and initial.): Claude and Karen

Last name: Brooks

Your social security number: 000 00 0000

Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address): 815 Maine Ave.

Spouse's social security number: 000 00 0000

City, town, or post office, state, and ZIP code: Town, VA 22000

PROOF COPY

Part I Facts About You and Your Home

1a Date former main home was sold ▶ March 3, 1989

		Yes	No
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $		
2a	Have you bought or built a new main home?	✓	
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		✓
3a	Were you 55 or older on date of sale?		✓
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**		✓
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II Figure Your Gain (Do not include amounts that you deduct as moving expenses.)

4	Selling price of home. (Do not include personal property items.)	4	55,000 –
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	3,300 –
6	Subtract line 5 from line 4. This is the amount realized	6	51,700 –
7	Basis of home sold (See Instructions.)	7	40,000 –
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	11,700 –
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III If Age 55 or Older, Figure Your One-Time Exclusion *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	

Part IV Figure Gain To Be Postponed and Adjusted Basis of New Home *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	0
12	Subtract line 11 from line 6 (adjusted sales price)	12	51,700 –
13a	Cost of new home	13a	45,000 –
b	Enter the date you moved into your new main home ▶ June 17, 1989		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	6,700 –
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	5,000 –
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	40,000 –

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature: Claude Brooks Date: 3-10-89

Spouse's Signature: Karen Brooks Date: 3-10-89

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Exhibit 8, filled-in

Form **2119**
Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.) James C and Betty M	Last name Weber	Your social security number 456 00 7890
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address) 330 CARL Spring Dr.		Spouse's social security number 000 00 000
	City, town, or post office, state, and ZIP code ARLINGTON, LA 70000		

PROOF COPY

Part I Facts About You and Your Home

		Yes	No
1a	Date former main home was sold ▶ May 16, 1989		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $ 0		
2a	Have you bought or built a new main home?	✓	
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		✓
3a	Were you 55 or older on date of sale?	✓	
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**	✓	
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?	✓	
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**	✓	
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☒ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II Figure Your Gain (Do not include amounts that you deduct as moving expenses.)

4	Selling price of home. (Do not include personal property items.)	4	182,000	-
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	13,000	-
6	Subtract line 5 from line 4. This is the amount realized	6	169,000	-
7	Basis of home sold (See Instructions.)	7	26,000	-
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	143,000	-
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No			

Part III If Age 55 or Older, Figure Your One-Time Exclusion *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	125,000	-
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	18,000	-

Part IV Figure Gain To Be Postponed and Adjusted Basis of New Home *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	0	
12	Subtract line 11 from line 6 (adjusted sales price)	12	169,000	-
13a	Cost of new home	13a	87,000	-
b	Enter the date you moved into your new main home ▶ June 10, 1989			
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	0	
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	18,000	-
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	69,000	-

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature	Date	Spouse's Signature	Date
▶ James C Weber	3-14-89	▶ Betty M Weber	3-14-89

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Lesson 3

Pensions

Objectives

At the end of this lesson you will be able to:

1. Use the General Rule and the Simplified General Rule in computing the taxable and nontaxable parts of a pension.
2. Report pension income on the appropriate lines of Form 1040.
3. Be aware of several kinds of retirement income.
4. See, from the statement the taxpayer received, what kind of retirement income the taxpayer has.

Contents

Introduction

Pensions and Annuities

Lump-Sum Distributions

Special Treatment

Statements and Income Tax Withholding

Summary

Introduction

As a volunteer you will often be asked, "How much tax do I pay on my pension?" This lesson will help you understand the questions most frequently asked by taxpayers who receive pension income. You will study fully taxable pensions, partly taxable pensions, and lump-sum distributions. You will also have an overview of the general rule for partly taxable pensions, the taxation of lump-sum distributions, and special treatment for certain retirement payments. You will learn what statements taxpayers receive that show their retirement benefits.

Note: The three-year rule was repealed for retirees whose annuity starting date is after July 1, 1986. After this date, the general rule or the simplified general rule must be used for reporting all pension and annuity income that is not fully taxable. The "general rule" and the "simplified general rule" are discussed later in this lesson.

Pensions and Annuities

Pensions and annuities provide cash payments, usually after a person has retired. The payments may be for life or over a fixed period. They may begin at retirement or at a specific age.

- A pension is generally a fixed amount paid periodically to a retired employee or survivor and is usually based on years of service and on the amount of compensation received while working.
- An annuity is generally obtained by buying an annuity contract from an insurance company, a trust company, or an individual, and it provides for income payable at stated intervals for a period of more than one full year.

This lesson refers to both pensions and annuities as pensions, and primarily covers plans to which both the employer and employee contribute. Other rules also affect certain kinds of retirement income, as explained later under *Special Treatment.*

Whether a pension is fully or partly taxable generally depends on whether the employee contributed to the pension plan. Employee contributions are "after-tax" amounts the employee paid into the pension fund. Employee contributions are often referred to as the cost of the pension or as the investment in the contract. The employer usually deducts them from wages and pays them into the pension fund for the employee. For the pensions discussed here, the employer will also have contributed to the pension fund.

Most taxpayers know whether they contributed to their pension fund. If a taxpayer does not know, refer this person to his or her former employer for the information.

Fully Taxable Pensions

Generally, if the taxpayer did not contribute to the cost of the pension plan, the pension benefits received are fully taxable. Military pensions based on age or length of service are noncontributory and, therefore, fully taxable.

Individual Retirement Arrangements. Generally, distributions from an individual retirement arrangement (IRA) are fully taxable and are reported on line 16b, Form 1040. Rollovers (movement of funds to an IRA from another IRA or from a pension plan) are not taxable. See Publication 590, *Individual Retirement Arrangements (IRAs),* for detailed information about individual retirement arrangements.

Partly Taxable Pensions

When a retiree has contributed to a pension plan, part of the pension received is a return of the amounts contributed in earlier years, when he or she was still an employee. If the retiree already paid tax on the contribution (it was included in wages), he or she does not pay tax on it again when the pension is received.

One of three methods is used to determine how the taxpayer will recover the cost tax-free. The methods are:

- The general rule.
- The simplified general rule.
- The three-year rule only for pensions starting before July 2, 1986.

General Rule

All taxpayers who contributed to their pension or annuity and their pension or annuity starting date is after July 1, 1986, must use either the General Rule, or, if they qualify, the Simplified General Rule, discussed later, to figure the taxable and nontaxable part of each payment.

Under the general rule each payment consists of two parts: a return of the taxpayer's contribution, which is nontaxable, and a taxable part. Once the amount of the tax-free part is determined, it stays the same, even if the payments increase. The additional amount is taxable.

The total amount of pension or annuity income that is excluded over the years as a return of the investment may not exceed the total investment reduced by the value of any refund feature. Any unrecovered investment at a retiree's (or last annuitant's) death is allowed as an itemized deduction in the last tax year (not subject to the 2% of adjusted gross income limit, discussed earlier in Module III, lesson 5).

Assume a retiree, whose annuity starting date is after 1986, excludes $100 a month under the general rule. If the total investment is $12,000, the exclusion ends after 10 years (120 months). Thereafter, the entire pension or annuity is taxable.

Note: Some employers send their retirees statements that show the nontaxable amount or the exclusion percentage originally used to figure the nontaxable part of the taxpayer's pension. Other taxpayers will not know these amounts. If these taxpayers are unable to get this information from their former employers (or other payer of the pension), you should refer them to Publication 575, *Pension and Annuity Income,* Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits,* or to a professional preparer.

If the taxpayer has been given the exclusion percentage, you can figure the tax-free part of the pension. Add up the payments received during the year before any deduction for such items as insurance premiums or income tax withheld. Then multiply this total by the exclusion percentage to get the tax-free part of the pension. The balance is taxable.

Example

Mr. Smith retired November 1988. Annuity payments of $700 a month started in January 1989. The given exclusion percentage is 14.4%. Mr. Smith's 1989 tax-free part of the pension is $1,210 and the taxable part is $7,190, figured as follows:

Annual payments ($700 x 12 months)	$8,400
Multiply by exclusion percentage 14.4%	x .144
Tax-free part of pension	$1,210
Taxable part ($8,400 – $1,210)	$7,190

Example

Mary Ann Mallory retired in July 1987. She began to receive a monthly pension of $600 in September 1987. Her employer figured her exclusion percentage to be 13.7%. Thus, her monthly exclusion will be $82.20 until she recovers her investment in the pension. Mary Ann's tax-free part of the pension for 1989 is $986 and the taxable part is $6,214, figured as follows:

Total payments ($600 x 12 months)	$7,200
Tax–free part of pension ($82.20 x 12 months)	986
Taxable part ($7,200 – $986)	$6,214

Exercise 1

Janice Rutledge retired in September 1987 and began receiving a monthly annuity of $725 in November of that year. She tells you that her exclusion percentage is 15.3% ($111 per month). Figure the tax-free part and the taxable part of Janice's annuity for 1989.

Total payments for 1989	$
Tax–free part of annuity	
Taxable part	$

Exercise 2

Gilbert Owens retired in February 1989 and began receiving a pension in April 1989 of $670 a month. His employer figured his exclusion percentage to be 14.8%. Figure the tax-free part and the taxable part of Gilbert's pension for 1989.

Total payments for 1989	$
Multiply by exclusion percentage	x
Tax–free part of pension	$
Taxable part	$

The total amount of the pension is shown on Form 1040, line 17a, and the taxable part is shown on line 17b.

If the exclusion percentage is not available, you should refer to the publications mentioned earlier so that you can apply the formula and appropriate actuarial table to arrive at the exclusion percentage.

To determine the exclusion percentage, you must divide the taxpayer's investment in the contract by the expected return. An example of this procedure is shown.

Example

Mr. Brown began receiving a monthly annuity of $1,000. His investment in the contract is $42,000 and the expected return is $180,000. The exclusion percentage is 23.3% computed as follows:

$42,000 ÷ $180,000 = 23.3% (Investment divided by expected return = exclusion percentage).

* Simplified General Rule

If the taxpayer retired and his or her pension or annuity starting date is after July 1, 1986, you may be able to use a computation simpler than the *General Rule*, explained earlier, to figure the taxable and nontaxable parts of the taxpayer's or survivor's annuity. This simpler method can be used only if:

- The annuity payments are for either (a) the taxpayer's life, or (b) for the lives of the taxpayer and his or her beneficiary, and
- The annuity payments are from a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity, and
- At the time the payment began, either the taxpayer was under age 75 or, if the taxpayer was 75 or older, the number of years of guaranteed payments was fewer than 5.

If the taxpayer meets these conditions and the **Simplified General Rule** is used, figure the taxable part of the taxpayer's pension using the worksheet for the **Simplified General Rule** in the Form 1040 Instructions for 1989.

Be sure to tell the taxpayers you help that they should keep the worksheet for figuring their 1990 taxable pensions. For purposes of the worksheet, use the taxpayer's age at the birthday preceding his or her annuity starting date.

The following examples will show you how the simplified method applies to typical situations.

Example

Peter Smith, age 62, began receiving retirement benefits under a joint and survivor annuity to be paid for the joint lives of Peter and Peter's wife, Mary. Peter's annuity starting date is March 1, 1989. He contributed $19,200 to the plan and did not receive any distributions before the annuity starting date. Peter is to receive retirement benefit of $800 a month, and Mary is to receive a monthly survivor benefit of $400 upon Peter's death.

Under the Simplified General Rule, Peter's investment in the contract at the annuity starting date is $19,200 (his after-tax contributions to the plan). The set number of monthly payments according to line 3 of the worksheet for a recipient who is 62 years old is 240. The tax-free part of each $800 monthly annuity payment to Peter is $80, figured by dividing Peter's total investment ($19,200) by the number of monthly payments (240):

$$\frac{\text{Total investment: } \$19{,}200}{\text{Expected payments: } 240} = \$80 \text{ (Peter's monthly return of investment)}$$

If Peter lives to collect more than 240 monthly payments, he will have to include in his gross income the full amount of any annuity payments received after 240 payments have been made.

If Peter does not live to collect 240 monthly payments and Peter's wife, Mary, begins to receive monthly payments, she will also exclude $80 (arrived at in line 4) from each monthly payment until 240 payments (Peter's and hers) have been collected. If she dies before 240 payments have been made, a miscellaneous itemized deduction (but not subject to the 2% floor on miscellaneous deductions) will be allowed for the unrecovered cost on Mary's final income tax return.

Exhibit 1

Worksheet for Simplified General Rule (Keep for your records)

1. Enter the total pension received this year. Also enter this amount on Form 1040, line 17a 8,000
2. Your cost in the plan (contract), including any death benefit exclusion 19,200
3. Age at annuity starting date:

Age at annuity starting date:	Enter:
55 and under	300
56–60	260
61–65	240
66–70	170
71 and over	120

. . . . 240

4. Divide the amount on line 2 by the number on line 3, and round to two decimal places 80
5. Multiply line 4 by the number of months for which this year's payments were made 800
6. **Taxable pension for year.** Subtract line 5 from line 1. Enter the result but not less than zero. Also enter this amount on Form 1040, line 17b. If your Form W-2P shows a larger taxable amount, use the amount on this line instead of the amount from Form W-2P. 1,200

Remaining cost to be recovered in tax years after 1989. (Fill out only if your annuity starting date was **after** December 31, 1986.)

7. Enter the amount from line 2 19,200
8. Enter the amount from line 5 plus any amount recovered tax-free in 1987 and 1988 800
9. **Your remaining cost.** Subtract line 8 from line 7 18,400

Note: *If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.*

Exercise 3

Martha Rivers began receiving a $1,500 monthly annuity upon her retirement on January 1, 1989. She contributed $29,000 to her qualified employee plan and did not receive any distributions before January 1, 1989. Martha was 53 years old at the annuity starting date. Using the Simplified General Rule worksheet (Exhibit 2), figure the taxable part of Martha's monthly benefit payments for 1989.

Exhibit 2

Worksheet for Simplified General Rule (Keep for your records)

1. Enter the total pension received this year. Also enter this amount on Form 1040, line 17a . . . . ______
2. Your cost in the plan (contract), including any death benefit exclusion ______
3. Age at annuity starting date:

Age at annuity starting date:	Enter:
55 and under	300
56–60	260
61–65	240
66–70	170
71 and over	120 . . . . ______

4. Divide the amount on line 2 by the number on line 3, and round to two decimal places . . . . ______
5. Multiply line 4 by the number of months for which this year's payments were made . . . . ______
6. **Taxable pension for year.** Subtract line 5 from line 1. Enter the result but not less than zero. Also enter this amount on Form 1040, line 17b. If your Form W-2P shows a larger taxable amount, use the amount on this line instead of the amount from Form W-2P. . . . . ______

Remaining cost to be recovered in tax years after 1989. (Fill out only if your annuity starting date was **after** December 31, 1986.)

7. Enter the amount from line 2 . . . . ______
8. Enter the amount from line 5 plus any amount recovered tax-free in 1987 and 1988 . . . . ______
9. **Your remaining cost.** Subtract line 8 from line 7 . . . .

Note: *If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.*

Example

Irene Burke began receiving monthly retirement benefits under her qualified employee plan in March 1988. Irene was 64 at the annuity starting date. She contributed $24,000 to the plan and did not receive any distributions before the annuity starting date. Irene's monthly benefit is $650. Irene's taxable part of her monthly benefit payments for 1989 under the Simplified General Rule (Exhibit 3) is figured as follows:

Exhibit 3

Worksheet for Simplified General Rule (Keep for your records)

1.	Enter the total pension received this year. Also enter this amount on Form 1040, line 17a	7,800
2.	Your cost in the plan (contract), including any death benefit exclusion	24,000
3.	Age at annuity starting date:	

Age at annuity starting date:	Enter:
55 and under	300
56–60	260
61–65	240
66–70	170
71 and over	120

3.	(Line 3 amount)	240
4.	Divide the amount on line 2 by the number on line 3, and round to two decimal places	100
5.	Multiply line 4 by the number of months for which this year's payments were made	1,200
6.	**Taxable pension for year.** Subtract line 5 from line 1. Enter the result but not less than zero. Also enter this amount on Form 1040, line 17b. If your Form W-2P shows a larger taxable amount, use the amount on this line instead of the amount from Form W-2P	6,600
	Remaining cost to be recovered in tax years after 1989. (Fill out only if your annuity starting date was **after** December 31, 1986.)	
7.	Enter the amount from line 2	24,000
8.	Enter the amount from line 5 plus any amount recovered tax-free in 1987 and 1988	2,200
9.	**Your remaining cost.** Subtract line 8 from line 7	21,800

Note: *If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b*

Exercise 4

Charles Street retired in December 1987 and began receiving monthly retirement benefits under his qualified employee plan in January 1988. Charles was 61 at the annuity starting date. He had contributed $32,000 to his retirement plan and did not receive any distributions before January 1988. Charles' monthly benefit is $1,100. Using the Simplified General Rule worksheet (Exhibit 4), figure the taxable part of Charles' monthly benefit payments for 1989.

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Exhibit 4

Worksheet for Simplified General Rule (Keep for your records)

1. Enter the total pension received this year. Also enter this amount on Form 1040, line 17a . . . . ____________

2. Your cost in the plan (contract), including any death benefit exclusion ____________

3. Age at annuity starting date:

Age at annuity starting date:	Enter:
55 and under	300
56–60	260
61–65	240
66–70	170
71 and over	120 . . . . ____________

4. Divide the amount on line 2 by the number on line 3, and round to two decimal places . . . . ____________

5. Multiply line 4 by the number of months for which this year's payments were made . . . . ____________

6. **Taxable pension for year.** Subtract line 5 from line 1. Enter the result but not less than zero. Also enter this amount on Form 1040, line 17b. If your Form W-2P shows a larger taxable amount, use the amount on this line instead of the amount from Form W-2P. . . . . ____________

Remaining cost to be recovered in tax years after 1989. (Fill out only if your annuity starting date was **after** December 31, 1986.)

7. Enter the amount from line 2 . . . . ____________

8. Enter the amount from line 5 plus any amount recovered tax-free in 1987 and 1988 . . . . ____________

9. **Your remaining cost.** Subtract line 8 from line 7 . . . .

***Note:** If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.*

Death benefit exclusion. If a taxpayer is a beneficiary of a deceased employee or former employee, the taxpayer may qualify for a death benefit exclusion of up to $5,000. A taxpayer who chooses to use the Simplified General Rule and who also qualifies for the death benefit exclusion may increase the total investment in the pension or annuity contract (on line 2 of the worksheet) by the amount of the allowable death benefit exclusion.

However, the payer of the annuity cannot add the death benefit exclusion to the cost for reporting the tax-free and taxable parts of a payment on Form W–P. Thus, there will be a difference in the amounts you will figure for the taxpayer and the amounts the payer will figure. The taxpayer must attach a signed statement to his or her income tax return stating that the taxpayer is entitled to the death benefit exclusion in making the Simplified General Rule computation.

Example

Hannah Douglas, age 53, began receiving a monthly annuity in 1989 of $1,200 upon the death of her husband, Philip. She received 10 payments in 1989. She tells you that she qualifies for the death benefit exclusion of $5,000 and that Philip had contributed $29,000 to the plan. Hannah chooses to use the *Simplified General Rule* for figuring the taxable and nontaxable parts of her monthly annuity payment. Her investment for purposes of the *Simplified General Rule* is $34,000 ($29,000 + $5,000). (See Exhibit 5).

The expected number of monthly payments for someone who is 53 years old at the annuity starting date is 300. The tax-free part of each one of Hannah's monthly payments is $113.33, figured as follows:

$$\frac{\text{Total investment: \$34,000}}{\text{Expected payments: 300}} = \$113.33 \text{ (Monthly return of investment)}$$

However, since Philip's former employer (the payer of the annuity) cannot adjust Hannah's investment ($29,000) by the death benefit exclusion for reporting purposes, the former employer figures the tax-free part of each monthly annuity payment to be $96.67 as follows:

$$\frac{\text{Total investment: \$29,000}}{\text{Expected payments: 300}} = \$96.67 \text{ (Monthly return of investment)}$$

Thus, Hannah's Form W–P2 from the payer will show a monthly taxable annuity payment of $1,103.33 ($1,200 – $96.67). In spite of this, she should only report on line 17b of Form 1040 the smaller taxable amount based on her own computation. She must attach a signed statement to her return saying that she is entitled to the death benefit exclusion in making the Simplified General Rule computation.

Exhibit 5

Worksheet for Simplified General Rule (Keep for your records)

1.	Enter the total pension received this year. Also enter this amount on Form 1040, line 17a		12,000.00
2.	Your cost in the plan (contract), including any death benefit exclusion		34,000.00
3.	Age at annuity starting date:	Enter:	
	55 and under	300	
	56–60	260	
	61–65	240	
	66–70	170	
	71 and over	120	300
4.	Divide the amount on line 2 by the number on line 3, and round to two decimal places		113.33
5.	Multiply line 4 by the number of months for which this year's payments were made		1,133.30
6.	**Taxable pension for year.** Subtract line 5 from line 1. Enter the result but not less than zero. Also enter this amount on Form 1040, line 17b. If your Form W-2P shows a larger taxable amount, use the amount on this line instead of the amount from Form W-2P		10,866.70
	Remaining cost to be recovered in tax years after 1989. (Fill out only if your annuity starting date was **after** December 31, 1986.)		
7.	Enter the amount from line 2		34,000.00
8.	Enter the amount from line 5 plus any amount recovered tax-free in 1987 and 1988		1,133.30
9.	**Your remaining cost.** Subtract line 8 from line 7		32,866.70

***Note:** If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.*

Three-year rule. The determination of whether the three-year rule applies had to have been made when the 1986 or earlier return was being prepared. For example, if the taxpayer could recover the pension contributions he or she made within 36 months, the three-year rule would apply.

If the taxpayer qualified for the three-year rule in 1986, and has not yet recovered the cost, he or she would continue to exclude the pension until the cost is recovered. For the 1989 tax year, most retired persons should have recovered their contributions to the plan.

Lump-Sum Distributions

A lump-sum distribution is the payment within one tax year to a taxpayer of his or her balance (less certain amounts) in all qualified pension, stock bonus, and profit sharing plans that his or her employer maintains. To qualify as a lump-sum distribution, the payment must have been made:

1. Because the employee died,
2. After the employee reached age 59½,
3. Because the employee (not including a self-employed individual) separated from service with the employer, or
4. After a self-employed individual was totally and permanently disabled.

The taxpayer should receive a Form 1099–R, *Statement for Recipients of Total Distributions From Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Insurance Contracts, Etc.*, that shows if a lump-sum distribution qualifies for special tax treatment.

If an individual was an active participant in his or her employer's retirement plan before 1974, the part of a distribution from the plan that is allocable to the pre-1974 participation could be taxed at a special rate, using Form 4972, *Tax on Lump-Sum Distributions.*

Other benefits may be available to taxpayers who receive lump-sum distributions from a qualified retirement plan. These include tax-free rollover treatment of the distribution into an individual retirement arrangement (IRA) and eligibility for the death benefit exclusion for distributions that a beneficiary received.

Civil Service retirees. For information on how federal income tax rules apply to the benefits that retired federal employees (or their survivors) receive under the U.S. Civil Service Retirement Act, refer to Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits.*

If a taxpayer has any questions about lump-sum distributions or about the benefits to which he or she may be entitled, refer that taxpayer to Publication 575.

Special Treatment

Special treatment applies to the kinds of retirement income described here.

Credit for the Elderly or the Disabled

Taxpayers who are under 65, have retired on permanent and total disability, and received taxable disability benefits in 1989 may be able to take the credit for the elderly or the disabled, which is explained in Module IV, Lesson 5.

Taxable Social Security and Railroad Retirement Benefits

Some social security and equivalent railroad retirement benefits are reported separately as taxable income. They are explained in Module IV, Lesson 4.

Railroad retirement benefits, other than the social security equivalent portion of tier 1 benefits, are treated as benefits from a qualified plan. This means that they qualify for certain advantages not previously available for them.

The taxpayer should have received Form RRB-W-2P, *Statement for Recipients of Annuities or Pensions by the Railroad Retirement Board.* This form should show the benefits the taxpayer received during 1989, his or her contributions to the pension fund, and any withheld income tax.

Under certain circumstances, the benefits received may be eligible for special tax treatment, using Form 4972, or tax-free rollover treatment. For more information, see Publication 575.

Statements and Income Tax Withholding

The taxpayer should have received a statement that shows the amounts you will use to determine how the taxpayer's pension or lump-sum distribution is taxed. The statement also shows the amount of any income tax that was withheld.

Income tax is withheld from the taxable part of a pension unless the recipient chooses not to have tax withheld. The payer of the pension can tell the taxpayer how to change the amount withheld or stop the withholding. The exemption from withholding may not apply to a payment outside the United States.

A taxpayer who chooses not to have tax withheld may have to pay estimated tax. Generally, a taxpayer will be required to pay estimated tax if he or she owes $500 or more in estimated tax for the year, and expects that the total amount of income tax that will be withheld during the year will be less than the smaller of:

1. 90% of the tax shown on that person's income tax return for the year, or
2. 100% of the tax shown on that person's tax return for the previous year.

If enough tax is not paid either through withholding or through estimated tax payments, a penalty may be charged. For more information about estimated tax, see Module IV, Lesson 7.

Form W-2P. A pension recipient generally is given a Form W-2P, *Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.* The payer of the pension, usually the former employer, gives this statement to the retiree. In box 9 the statement shows the total pension payments for the year. If the payer can figure the taxable part, it is shown in box 10, and the recipient should check to be sure that the amount is correct. If federal income tax is withheld, it is shown in box 11 and the taxpayer should attach a copy of Form W-2P to the front of Form 1040.

Form RRB-W-2P. For a tier 2 railroad retirement (RRTA) pension the recipient is given Form RRB-W-2P, *Statement for Recipients of Annuities or Pensions by the Railroad Retirement Board.* Box 9 shows the tier 2 taxable amount that is treated as a pension under the general rule. Any amounts in boxes 9, 10, and 11 are fully taxable. Include them on line 16b, Form 1040. Box 7 of Form RRB-W-2P shows any withheld tax. The taxpayer should attach Copy B of Form RRB-W-2P to Form 1040.

Form 1099-R. A recipient of a lump-sum distribution is given Form 1099-R, *Statement for Recipients of Total Distributions From Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Insurance Contracts, Etc.* The form shows if the distribution qualifies for special tax treatment, as explained earlier in this lesson.

Form RRB-1099. Taxpayers who receive tier 1 railroad retirement benefits should receive Form RRB-1099, *Statement for Recipients of Payments by the Railroad Retirement Board.* Amounts reported on Form RRB-1099 are treated as explained in Module IV, Lesson 4.

Form SSA-1099. Any amounts reported to the taxpayer on Form SSA-1099, *Social Security Benefit Statement,* are treated as explained in Module IV, Lesson 4.

Summary

Retirement income is reported to the taxpayer on any of several statements, and the taxable part is figured in any of several ways. In this lesson you became familiar with some kinds of retirement payments that taxpayers receive. You studied how to figure the tax on partly taxable pensions under the *General Rule* and under the *Simplified General Rule*. You also learned about fully taxable pensions, lump-sum distributions, and special treatment for certain kinds of retirement income. In addition you saw what statements taxpayers receive for different kinds of retirement income.

Answers to Exercises

1. Janice Rutledge's tax-free and taxable parts of her annuity are figured as follows:

Total payments for 1989 ($725 × 12 months)	$8,700
Multiply by exclusion percentage 15.3%	×.153
Tax-free part of annuity	$1,331
Taxable part ($8,700 - $1,331)	$7,369

2. Gilbert Owens' tax-free and taxable parts of his pension are figured as follows:

Total payments for 1989 ($670 × 9 months)	$6,030
Multiply by exclusion percentage 14.8%	×.148
Tax-free part of pension	$ 892
Taxable part ($6,030 - $892)	$5,138

3. See filled-in Exhibit 2.

4. See filled-in Exhibit 4.

Exhibit 2, filled-in

Worksheet for Simplified General Rule (Keep for your records)

1.	Enter the total pension received this year. Also enter this amount on Form 1040, line 17a	18,000.00
2.	Your cost in the plan (contract), including any death benefit exclusion	29,000.00
3.	Age at annuity starting date: / Enter: 55 and under — 300 56–60 — 260 61–65 — 240 66–70 — 170 71 and over — 120	300
4.	Divide the amount on line 2 by the number on line 3, and round to two decimal places	96.67
5.	Multiply line 4 by the number of months for which this year's payments were made	1,160.04
6.	**Taxable pension for year.** Subtract line 5 from line 1. Enter the result but not less than zero. Also enter this amount on Form 1040, line 17b. If your Form W-2P shows a larger taxable amount, use the amount on this line instead of the amount from Form W-2P	16,839.96
	Remaining cost to be recovered in tax years after 1989. (Fill out only if your annuity starting date was **after** December 31, 1986.)	
7.	Enter the amount from line 2	29,000.00
8.	Enter the amount from line 5 plus any amount recovered tax-free in 1987 and 1988	1,160.04
9.	**Your remaining cost.** Subtract line 8 from line 7	27,839.96

Note: *If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.*

Exhibit 4, filled-in

Worksheet for Simplified General Rule (Keep for your records)

1.	Enter the total pension received this year. Also enter this amount on Form 1040, line 17a		13,200.00
2.	Your cost in the plan (contract), including any death benefit exclusion		32,000.00
3.	Age at annuity starting date:	Enter:	
	55 and under	300	
	56–60	260	
	61–65	240	
	66–70	170	
	71 and over	120	240
4.	Divide the amount on line 2 by the number on line 3, and round to two decimal places		133.33
5.	Multiply line 4 by the number of months for which this year's payments were made		1,599.96
6.	**Taxable pension for year.** Subtract line 5 from line 1. Enter the result but not less than zero. Also enter this amount on Form 1040, line 17b. If your Form W-2P shows a larger taxable amount, use the amount on this line instead of the amount from Form W-2P		11,600.04
	Remaining cost to be recovered in tax years after 1989. (Fill out only if your annuity starting date was **after** December 31, 1986.)		
7.	Enter the amount from line 2		32,000.00
8.	Enter the amount from line 5 plus any amount recovered tax-free in 1987 and 1988		3,199.92
9.	**Your remaining cost.** Subtract line 8 from line 7		28,800.08

***Note:** If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.*

Module IV

Lesson 4

Taxable Social Security Benefits

Objectives

At the end of this lesson you will be able to:

1. Use the social security benefits worksheet in the Form 1040 instructions to figure any social security benefits or equivalent railroad retirement benefits that the taxpayer must report as taxable income.
2. Report on Form 1040 any taxable part of the benefits.

Contents

Introduction

Reportable Social Security Benefits

Using the Worksheet

Summary

Introduction

Social security and equivalent railroad retirement benefits received during the year may be taxable in part, for some taxpayers. As a volunteer you may have to figure the taxable part of the following benefits for some taxpayers you meet:

- Monthly benefits under title II of the Social Security Act. These benefits include old age, survivors', disability, and insurance benefits, and some worker's compensation benefits.

- Equivalent tier 1 railroad retirement benefits. For a full explanation of these benefits, refer to Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits.* (Tier 2 and non-equivalent tier 1 railroad retirement benefits are treated as a pension or annuity and are discussed in Module IV, Lesson 3.)

Note: A tier 1 railroad retirement benefit is divided into two parts for federal income tax purposes: an amount that is equivalent to a social security benefit and an amount that is treated like a private pension or annuity (similar to a tier 2 railroad retirement benefit). This lesson discusses only the social security equivalent part and, wherever a tier 1 benefit is mentioned, it refers only to that part.

Reportable Social Security Benefits

For both kinds of benefits you will make the same computations and use the same worksheet to figure how much, if anything, to report as taxable income. The worksheet, which is in the Form 1040 instructions, and this discussion generally refer to both kinds of benefits as social security benefits.

A taxpayer must file Form 1040 if any social security benefits are taxable. The total net benefits received are reported on line 21a and the taxable part is reported on line 21b. A taxpayer does not need to use Form 1040 if none of the benefits are taxable, unless he or she needs it for some other reason. Most taxpayers you meet will not have enough income for any of their social security benefits to be taxable.

The taxpayer will have received a statement from the payer, which shows the benefits received. For social security benefits the statement is Form SSA-1099, *Social Security Benefit Statement.* Along with Form SSA-1099, the taxpayer will receive IRS Notice 703. This notice contains a worksheet that will help you determine if part of the taxpayer's social security benefits may be taxable. Notice 703 should not be mailed to the IRS or to the Social Security Administration; it should be kept along with the taxpayer's personal records. For equivalent railroad retirement benefits the statement is Form RRB-1099, *Statement for Recipients of Payments by the Railroad Retirement Board.* If a taxpayer received the other portion of tier 1 benefits, these will appear on a pension statement, generally a Form RRB-W-2P. Be sure to examine the statements carefully to make certain you are using the correct figures on the social security benefit worksheet.

The benefits, to the extent they are taxable, are includible in the income of the person who has the legal right to receive them. This person's name is the one that appears on Form SSA-1099. A child's Form SSA-1099 income is not reported by the parents on their tax return.

Example

Amy Stone, the dependent adopted child of Jim and Alice Hood, received $1,200 in survivor social security benefits during 1989. Amy's other income for the year consisted of $3,000 she earned from her summer job and $400 in interest income. The Hoods will not include Amy's social security benefits on their return. When Amy completes her own return, however, she will complete the worksheet to see whether any of her social security benefits are taxable.

Note: When completing the worksheet in the Form 1040 instructions or the one in Notice 703, always enter on line 1 of the worksheet the amount from ***Box 5*** of Form SSA-1099 or Form RRB-1099—**net benefits.** Do not enter the amount from Box 3.

Lump-sum benefit payments. Some taxpayers may have received a lump-sum benefit payment in 1989 that is attributable to both 1989 and an earlier year (or years). These taxpayers have the choice of reporting the whole payment in 1989, the year in which it was received, or of spreading back the payment over the years to which it is attributable. If they make the latter choice, you must use the 3 worksheets in Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits,* to figure the taxable part (if any) of the lump-sum payment that is attributable to each of the years involved. Publication 915 also includes a walk-through example that shows you how to figure the taxable part of a lump-sum benefit payment, as well as more information on this type of payment. If you find this situation too complicated, refer the taxpayer to a professional preparer.

Using the Worksheet

The taxable part of social security benefits for 1989 will never be more than 50% of the benefits the taxpayer received. The computation on the worksheet may reduce the taxable part even more. The worksheet has built into it all the steps that you will need to figure the taxable part of a person's social security benefits.

The following examples and exercises will give you practice in seeing how to use the worksheet and how to report social security income on Form 1040.

Example

Doug and Kay Mercer file a joint return. Before the Mercers include any social security income, the amounts in the *Income* section of their Form 1040 add up to $36,500 (lines 7 through 20, and 22). In lines 24 through 29 of the *Adjustments to Income* section on the Mercers' Form 1040, they have $560 as a deduction for contributions to Kay's IRA (line 25). Mr. Mercer's Form SSA-1099, the Mercers' social security worksheet, and lines 21a and 21b from their Form 1040 are shown here (Exhibits 1, 2, and 3).

Exhibit 1

Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child
☒ **B.** Married filing a joint return
☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989
☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 6,100

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

2. Divide the amount on line 1 above by 2. 3,050

3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 36,500

4. Add lines 2 and 3 39,550

5. Enter the total adjustments from Form 1040, line 30 560

6. Subtract line 5 from line 4 38,990

7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } 32,000

8. Subtract line 7 from line 6. Enter the result, but not less than zero 6,990

Note: *If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

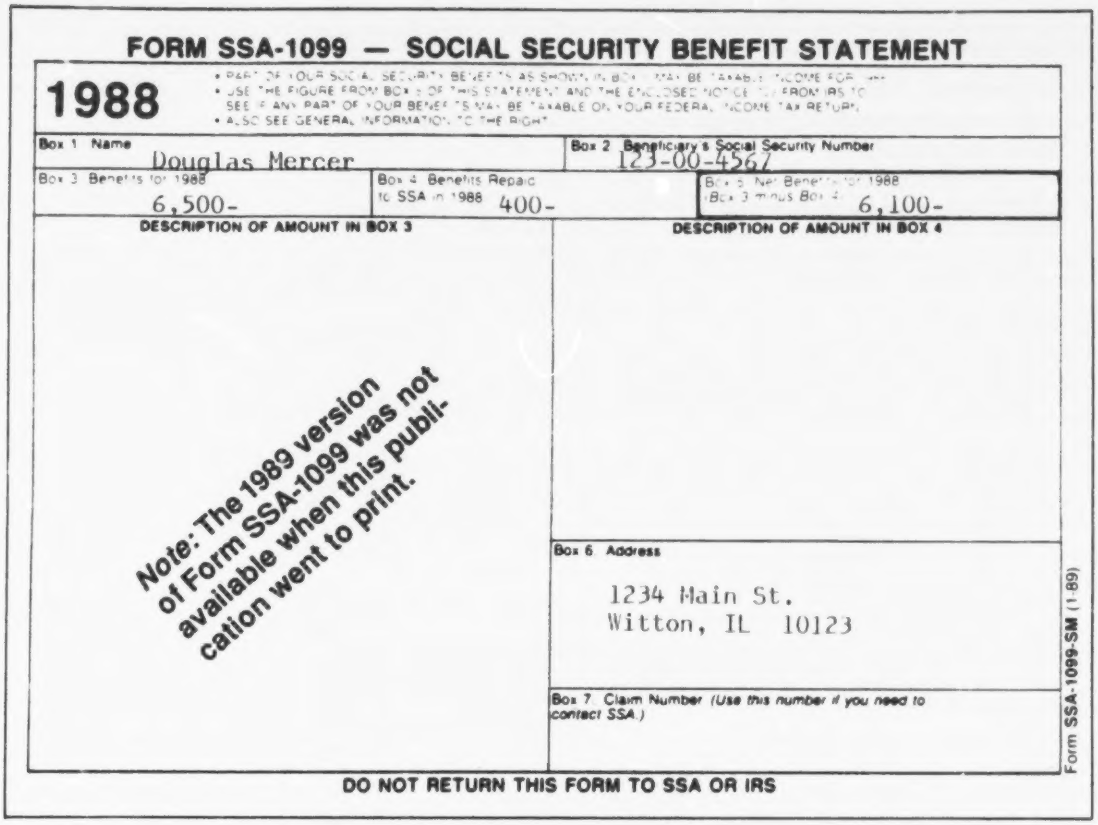
9. Divide the amount on line 8 above by 2 3,495

10. Taxable social security benefits.

- First, enter on Form 1040, line 21a, the amount from line 1 above.
- Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b 3,050

Note: *If part of your benefits are taxable for 1989* ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 2



FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1988

- PART OF YOUR SOCIAL SECURITY BENEFITS AS SHOWN IN BOX 5 MAY BE TAXABLE INCOME FOR 1988
- USE THE FIGURE FROM BOX 5 OF THIS STATEMENT AND THE ENCLOSED NOTICE [illegible] FROM IRS TO SEE IF ANY PART OF YOUR BENEFITS MAY BE TAXABLE ON YOUR FEDERAL INCOME TAX RETURN
- ALSO SEE GENERAL INFORMATION TO THE RIGHT

Box 1 Name: Douglas Mercer

Box 2 Beneficiary's Social Security Number: 123-00-4567

Box 3 Benefits for 1988: 6,500-

Box 4 Benefits Repaid to SSA in 1988: 400-

Box 5 Net Benefits for 1988 (Box 3 minus Box 4): 6,100-

DESCRIPTION OF AMOUNT IN BOX 3

DESCRIPTION OF AMOUNT IN BOX 4

Note: The 1989 version of Form SSA-1099 was not available when this publication went to print.

Box 6 Address

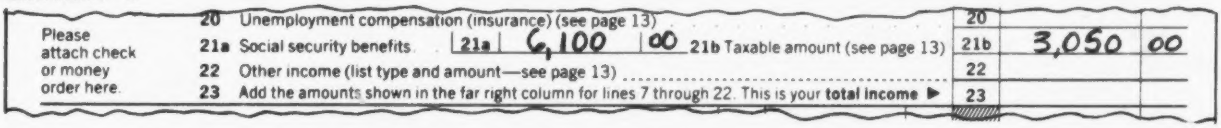
1234 Main St.
Witton, IL 10123

Box 7 Claim Number *(Use this number if you need to contact SSA.)*

Form SSA-1099-SM (1-89)

DO NOT RETURN THIS FORM TO SSA OR IRS

Exhibit 3



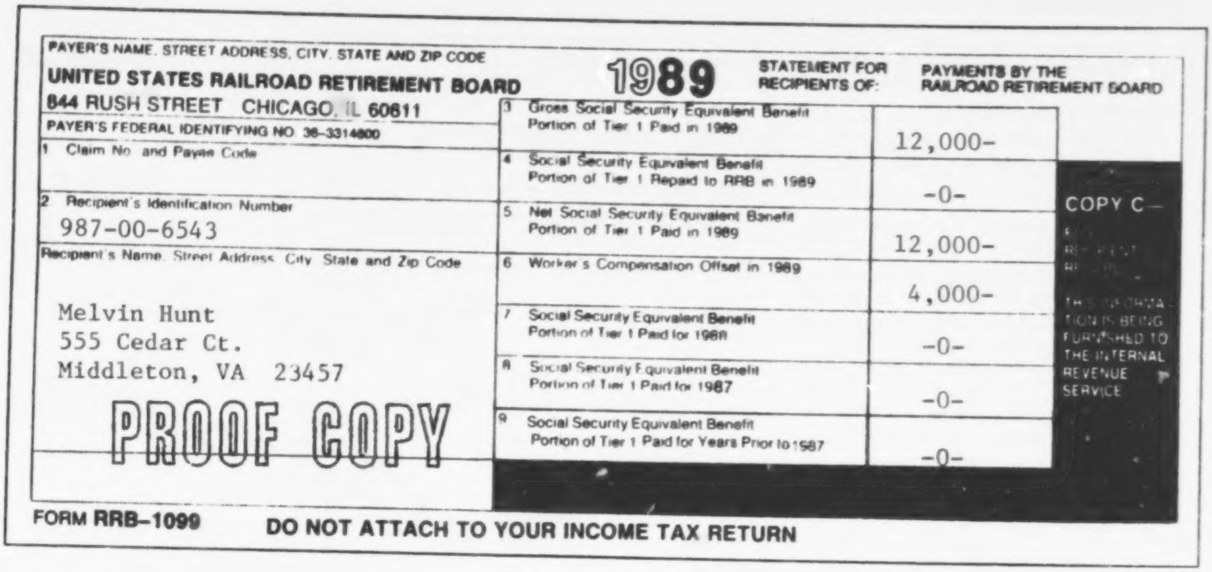
Please attach check or money order here.	20	Unemployment compensation (insurance) (see page 13)	20		
	21a	Social security benefits. 21a 6,100 00 21b Taxable amount (see page 13)	21b	3,050	00
	22	Other income (list type and amount—see page 13)	22		
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23		

Example

Melvin Hunt is married and lives with his wife, but the Hunts file separate returns. The income on Mr. Hunt's return is $4,800 before he considers his equivalent tier 1 benefits. He also had $500 in tax-exempt interest income. He had no adjustments to income on lines 24 through 29 of Form 1040. Mr. Hunt's Form RRB–1099, his worksheet, and lines 21a and 21b from his Form 1040 are shown here (Exhibits 4, 5, and 6).

Note: Although not included in total income, any tax-exempt interest received during the tax year must be shown on line 8b, Form 1040. See Module III, Lesson 3, for more information.

Exhibit 4



PAYER'S NAME, STREET ADDRESS, CITY, STATE AND ZIP CODE
UNITED STATES RAILROAD RETIREMENT BOARD
844 RUSH STREET CHICAGO, IL 60611

1989 STATEMENT FOR RECIPIENTS OF: PAYMENTS BY THE RAILROAD RETIREMENT BOARD

PAYER'S FEDERAL IDENTIFYING NO. 36-3314600

1 Claim No. and Payee Code

2 Recipient's Identification Number
987-00-6543

Recipient's Name, Street Address, City, State and Zip Code

Melvin Hunt
555 Cedar Ct.
Middleton, VA 23457

PROOF COPY

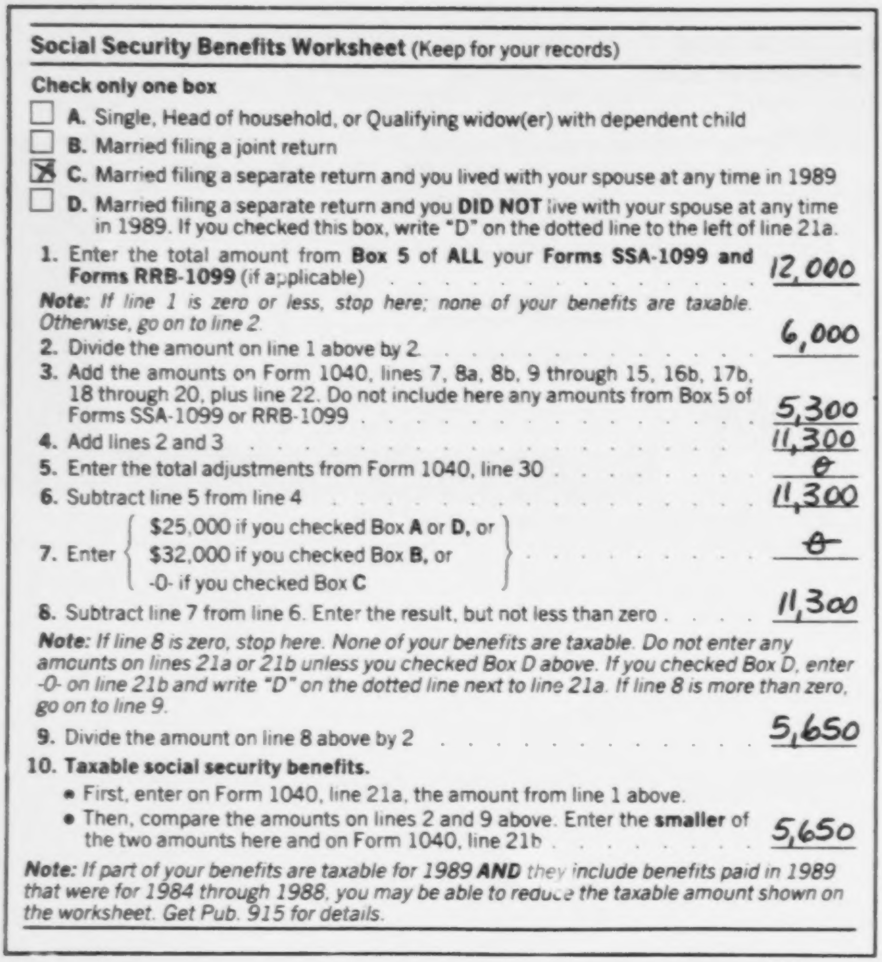
3 Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 1989	12,000-
4 Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 1989	-0-
5 Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 1989	12,000-
6 Worker's Compensation Offset in 1989	4,000-
7 Social Security Equivalent Benefit Portion of Tier 1 Paid for 1988	-0-
8 Social Security Equivalent Benefit Portion of Tier 1 Paid for 1987	-0-
9 Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 1987	-0-

COPY C—
FOR
RECIPIENT
RECORDS

THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE

FORM **RRB-1099** **DO NOT ATTACH TO YOUR INCOME TAX RETURN**

Exhibit 5



Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child
☐ **B.** Married filing a joint return
☒ **C.** Married filing a separate return and you lived with your spouse at any time in 1989
☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 12,000

Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.

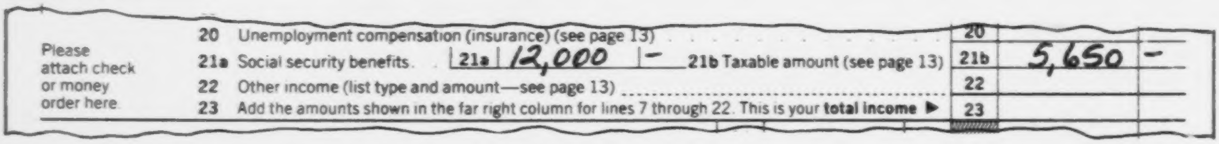
2. Divide the amount on line 1 above by 2 6,000
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 5,300
4. Add lines 2 and 3 11,300
5. Enter the total adjustments from Form 1040, line 30 0
6. Subtract line 5 from line 4 11,300
7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } 0
8. Subtract line 7 from line 6. Enter the result, but not less than zero 11,300

Note: If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.

9. Divide the amount on line 8 above by 2 5,650
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b 5,650

Note: If part of your benefits are taxable for 1989 ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 6

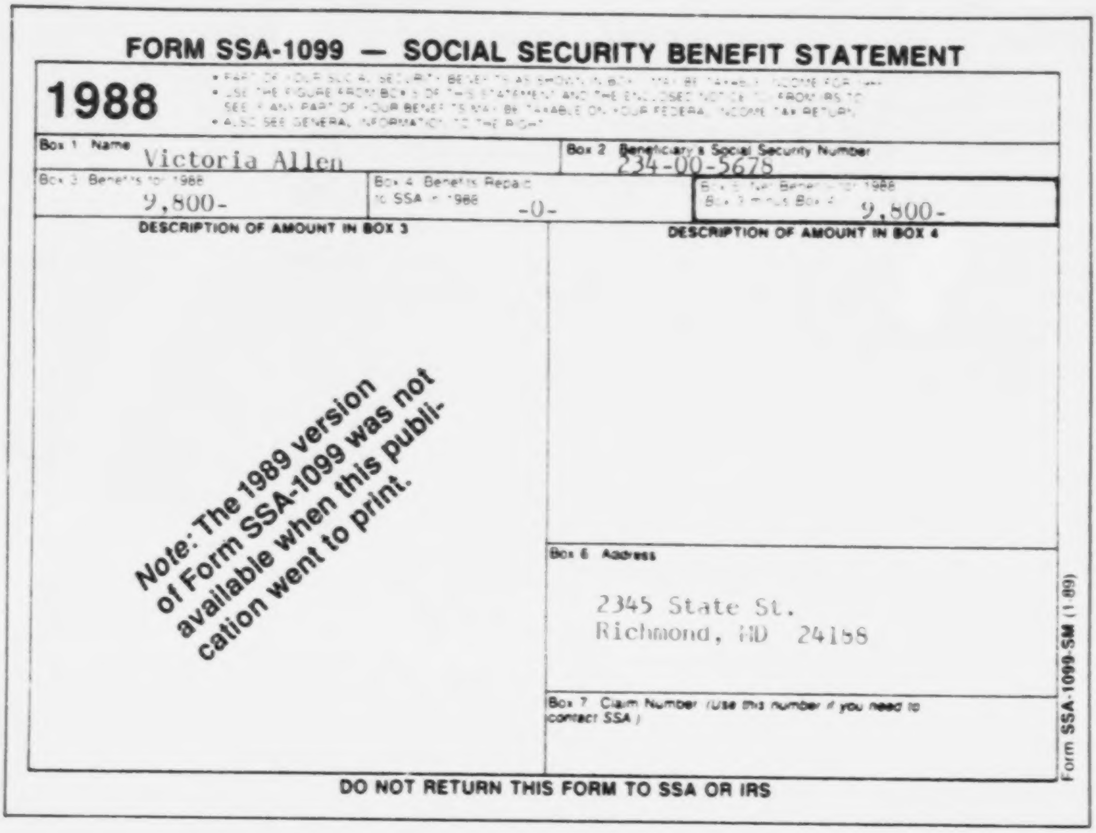


Please attach check or money order here.	20	Unemployment compensation (insurance) (see page 13)	20		
	21a	Social security benefits . 21a 12,000 – 21b Taxable amount (see page 13)	21b	5,650	–
	22	Other income (list type and amount—see page 13)	22		
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23		

Example

Vicki Allen is a head of household. The income on her return is $12,725 before she considers her social security benefits, and she received no tax-exempt interest. Ms. Allen's only adjustment to income is a $200 penalty on early withdrawal of savings (line 28, Form 1040). Her Form SSA-1099, her worksheet, and lines 21a and 21b from her Form 1040 are shown here (Exhibits 7, 8, and 9). Notice that a head of household or a qualifying widow(er), like a single person, would check box A on the worksheet. Notice also that if Ms. Allen did not have the early withdrawal penalty, she might be able to use Form 1040EZ or Form 1040A instead of Form 1040, because none of her social security benefits are taxable.

Exhibit 7



FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1988

Box 1 Name: Victoria Allen

Box 2 Beneficiary's Social Security Number: 234-00-5678

Box 3 Benefits for 1988: 9,800-

Box 4 Benefits Repaid to SSA in 1988: -0-

Box 5 Net Benefits for 1988 (Box 3 minus Box 4): 9,800-

DESCRIPTION OF AMOUNT IN BOX 3

DESCRIPTION OF AMOUNT IN BOX 4

Box 6 Address:
2345 State St.
Richmond, MD 24158

Box 7 Claim Number (Use this number if you need to contact SSA.)

DO NOT RETURN THIS FORM TO SSA OR IRS

Form SSA-1099-SM (1-89)

Note: The 1989 version of Form SSA-1099 was not available when this publication went to print.

Exhibit 8

Social Security Benefits Worksheet (Keep for your records)

Check only one box

☒ **A.** Single, Head of household, or Qualifying widow(er) with dependent child

☐ **B.** Married filing a joint return

☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989

☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 9,800

Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.

2. Divide the amount on line 1 above by 2 4,900

3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 12,725

4. Add lines 2 and 3 17,625

5. Enter the total adjustments from Form 1040, line 30 200

6. Subtract line 5 from line 4 17,425

7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } 25,000

8. Subtract line 7 from line 6. Enter the result, but not less than zero . . . . -0-

Note: If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9

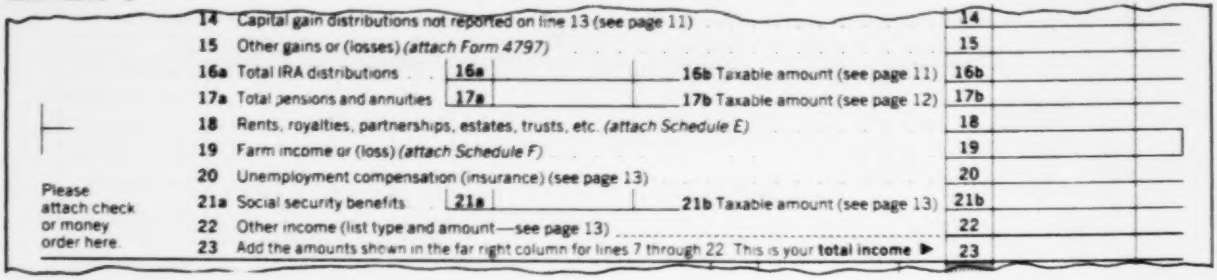
9. Divide the amount on line 8 above by 2 . . . . ______

10. Taxable social security benefits.

- First, enter on Form 1040, line 21a, the amount from line 1 above.
- Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b . . . . ______

***Note:** If part of your benefits are taxable for 1989 **AND** they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 9

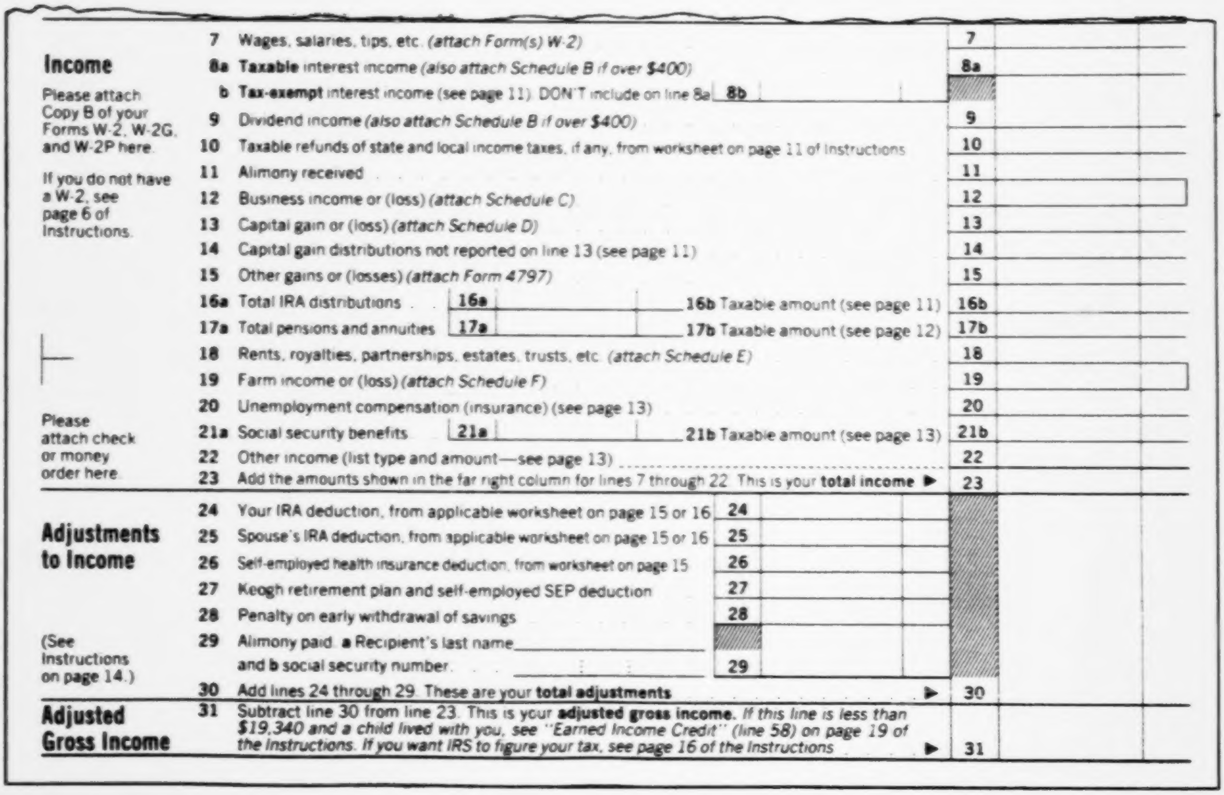


	14	Capital gain distributions not reported on line 13 (see page 11)		14	
	15	Other gains or (losses) *(attach Form 4797)*		15	
	16a	Total IRA distributions **16a** ___ **16b** Taxable amount (see page 11)		16b	
	17a	Total pensions and annuities **17a** ___ **17b** Taxable amount (see page 12)		17b	
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18	
	19	Farm income or (loss) *(attach Schedule F)*		19	
Please attach check or money order here.	20	Unemployment compensation (insurance) (see page 13)		20	
	21a	Social security benefits **21a** ___ **21b** Taxable amount (see page 13)		21b	
	22	Other income (list type and amount—see page 13)		22	
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23	

Exercise 1

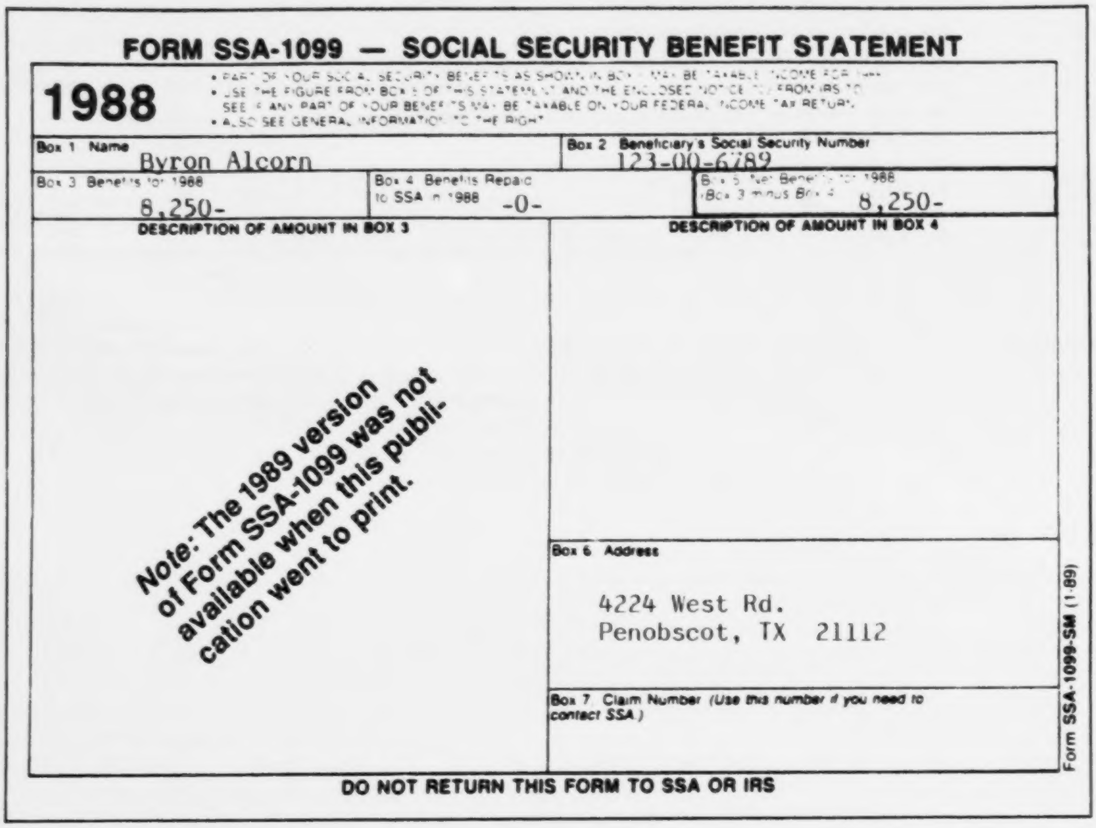
Byron Alcorn and his wife separated in July, but they are still married and are filing separate returns. Before Mr. Alcorn considers his social security benefits, the income on his return is $18,975. He has no tax-exempt interest income and no adjustments to income. Use his Form SSA-1099 (Exhibit 11) to complete his social security benefits worksheet and lines 21a and 21b of his Form 1040 (Exhibits 10 and 12).

Exhibit 10



Income	7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*		7	
Please attach Copy B of your Forms W-2, W-2G, and W-2P here.	8a	**Taxable** interest income *(also attach Schedule B if over $400)*		8a	
	b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a	8b	▨	
	9	Dividend income *(also attach Schedule B if over $400)*		9	
If you do not have a W-2, see page 6 of Instructions.	10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions		10	
	11	Alimony received		11	
	12	Business income or (loss) *(attach Schedule C)*		12	
	13	Capital gain or (loss) *(attach Schedule D)*		13	
	14	Capital gain distributions not reported on line 13 (see page 11)		14	
	15	Other gains or (losses) *(attach Form 4797)*		15	
	16a	Total IRA distributions **16a** ___ **16b** Taxable amount (see page 11)		16b	
	17a	Total pensions and annuities **17a** ___ **17b** Taxable amount (see page 12)		17b	
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18	
	19	Farm income or (loss) *(attach Schedule F)*		19	
Please attach check or money order here.	20	Unemployment compensation (insurance) (see page 13)		20	
	21a	Social security benefits **21a** ___ **21b** Taxable amount (see page 13)		21b	
	22	Other income (list type and amount—see page 13)		22	
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23	
Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	▨	
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	▨	
	26	Self-employed health insurance deduction, from worksheet on page 15	26	▨	
	27	Keogh retirement plan and self-employed SEP deduction	27	▨	
	28	Penalty on early withdrawal of savings	28	▨	
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name ___ and **b** social security number ___	29	▨	
	30	Add lines 24 through 29. These are your **total adjustments** ▶		30	
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶		31	

Exhibit 11



FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1988

- PART OF YOUR SOCIAL SECURITY BENEFITS AS SHOWN IN BOX 5 MAY BE TAXABLE INCOME FOR 1988.
- USE THE FIGURE FROM BOX 5 OF THIS STATEMENT AND THE ENCLOSED NOTICE 703 FROM IRS TO SEE IF ANY PART OF YOUR BENEFITS MAY BE TAXABLE ON YOUR FEDERAL INCOME TAX RETURN.
- ALSO SEE GENERAL INFORMATION TO THE RIGHT

Box 1 Name Byron Alcorn		Box 2 Beneficiary's Social Security Number 123-00-6789
Box 3 Benefits for 1988 8,250-	Box 4 Benefits Repaid to SSA in 1988 -0-	Box 5 Net Benefits for 1988 (Box 3 minus Box 4) 8,250-

DESCRIPTION OF AMOUNT IN BOX 3

Note: The 1989 version of Form SSA-1099 was not available when this publication went to print.

DESCRIPTION OF AMOUNT IN BOX 4

Box 6 Address

4224 West Rd.
Penobscot, TX 21112

Box 7 Claim Number *(Use this number if you need to contact SSA.)*

Form SSA-1099-SM (1-89)

DO NOT RETURN THIS FORM TO SSA OR IRS

Exhibit 12

Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child

☐ **B.** Married filing a joint return

☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989

☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) . . . . ______

***Note:** If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

2. Divide the amount on line 1 above by 2. . . . . ______

3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 . . . . ______

4. Add lines 2 and 3 . . . . ______

5. Enter the total adjustments from Form 1040, line 30 . . . . . . ______

6. Subtract line 5 from line 4 . . . . ______

7. Enter $\left\{\begin{array}{l}\text{\$25,000 if you checked Box A or D, or} \\ \text{\$32,000 if you checked Box B, or} \\ \text{-0- if you checked Box C}\end{array}\right\}$ . . . . ______

8. Subtract line 7 from line 6. Enter the result, but not less than zero . . . . . . ______

***Note:** If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 . . . . ______

10. Taxable social security benefits.

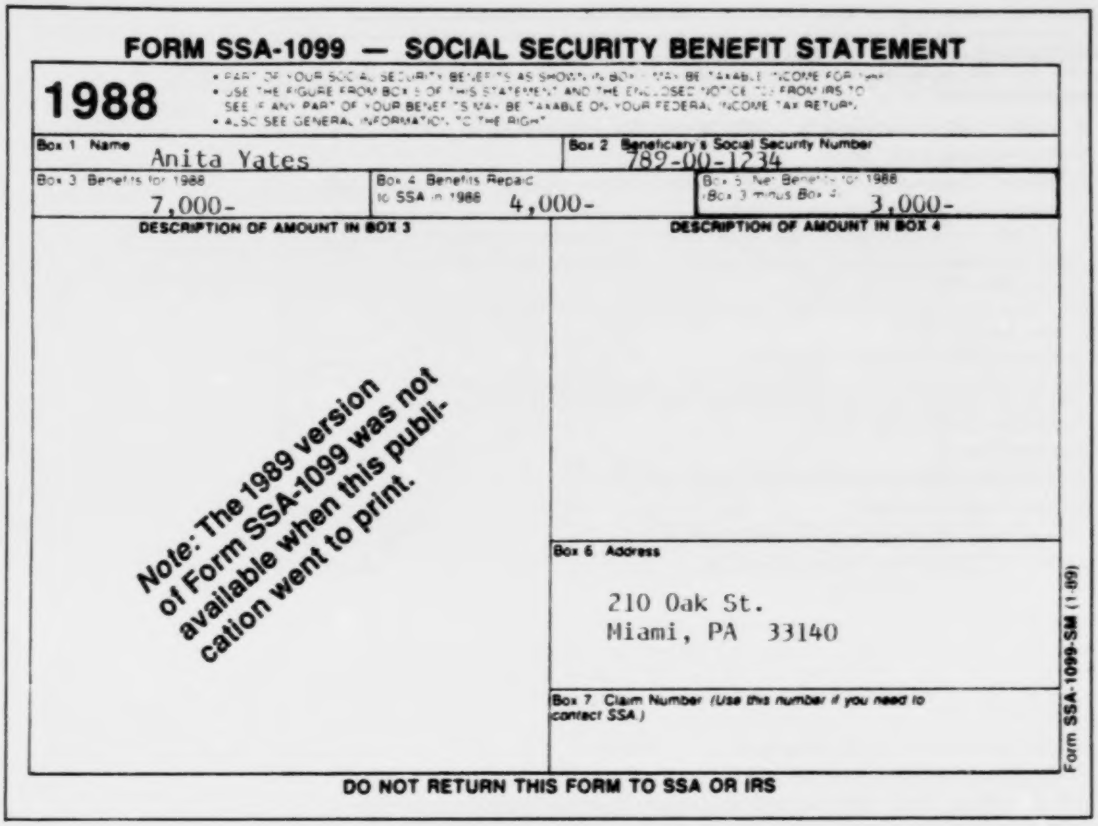
- First, enter on Form 1040, line 21a, the amount from line 1 above.
- Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b . . . . ______

***Note:** If part of your benefits are taxable for 1989 **AND** they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exercise 2

Bill and Anita Yates are married and file a joint return. Mrs. Yates' Form SSA–1099 is shown here (Exhibit 13). Apply the information from this form to the circumstances shown in each of the three parts of this problem, and in each part, complete the Yateses' social security worksheet and lines 21a and 21b from their Form 1040 (Exhibits 14, 15, 16, 17, 18, and 19).

Exhibit 13



FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1988

- PART OF YOUR SOCIAL SECURITY BENEFITS AS SHOWN IN BOX 5 MAY BE TAXABLE INCOME FOR 1988
- USE THE FIGURE FROM BOX 5 OF THIS STATEMENT AND THE ENCLOSED NOTICE 703 FROM IRS TO SEE IF ANY PART OF YOUR BENEFITS MAY BE TAXABLE ON YOUR FEDERAL INCOME TAX RETURN.
- ALSO SEE GENERAL INFORMATION TO THE RIGHT

Box 1 Name: Anita Yates

Box 2 Beneficiary's Social Security Number: 789-00-1234

Box 3 Benefits for 1988: 7,000-

Box 4 Benefits Repaid to SSA in 1988: 4,000-

Box 5 Net Benefits for 1988 (Box 3 minus Box 4): 3,000-

DESCRIPTION OF AMOUNT IN BOX 3

Note: The 1989 version of Form SSA-1099 was not available when this publication went to print.

DESCRIPTION OF AMOUNT IN BOX 4

Box 6 Address

210 Oak St.
Miami, PA 33140

Box 7 Claim Number *(Use this number if you need to contact SSA.)*

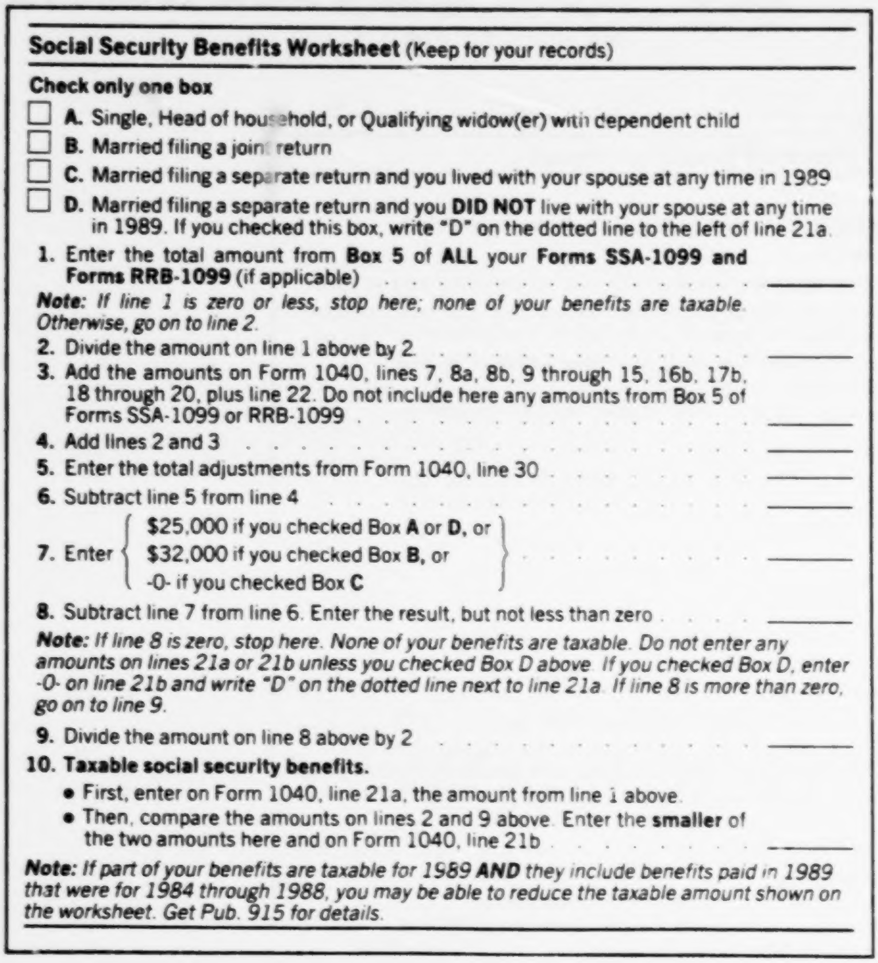
DO NOT RETURN THIS FORM TO SSA OR IRS

Form SSA-1099-SM (1-89)

a. Use the following information to complete the Yateses' social security worksheet and lines 21a and 21b of their Form 1040 (Exhibits 14 and 15).

Income items	Line on Form 1040	Amount
Wages, salaries	7	$ 5,000
Interest	8a	23,000
Dividends	9	600
Capital gains	13	400
Pension	17b	13,000
		$42,000
Tax-exempt interest	8b	6,000
Total income		$48,000—Worksheet, line 3
Adjustments to income		
Penalty, early withdrawal of savings	28	$ 150

Exhibit 14



Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child

☐ **B.** Married filing a joint return

☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989

☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) . . . . ______

Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.

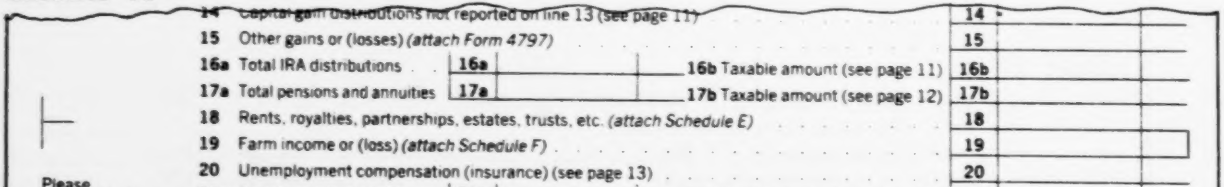
2. Divide the amount on line 1 above by 2 . . . . ______
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 . . . . ______
4. Add lines 2 and 3 . . . . ______
5. Enter the total adjustments from Form 1040, line 30 . . . . ______
6. Subtract line 5 from line 4 . . . . ______
7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } . . . . . . ______
8. Subtract line 7 from line 6. Enter the result, but not less than zero . . . . ______

Note: If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.

9. Divide the amount on line 8 above by 2 . . . . ______
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b . . . . ______

Note: If part of your benefits are taxable for 1989 ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 15



14	Capital gain distributions not reported on line 13 (see page 11)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions . . 16a ______ 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a ______ 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits . . 21a ______ 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13) ______	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

Please attach check or money order here.

b. Assume that the Yateses' taxable interest income (line 8a, Form 1040) was a quarter of the taxable interest they received in part a, but that the other amounts are the same as in part a of this problem. This means that the interest the Yateses report on line 8a of their Form 1040 would be

$5,750 instead of $23,000; and the amount to put on line 3 of the worksheet is now $30,750. Complete the worksheet and lines 21a and 21b, Form 1040.

Exhibit 16

Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child

☐ **B.** Married filing a joint return

☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989

☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) . . . . ______

***Note:** If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

2. Divide the amount on line 1 above by 2 . . . . ______

3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 . . . . ______

4. Add lines 2 and 3 . . . . ______

5. Enter the total adjustments from Form 1040, line 30 . . . . ______

6. Subtract line 5 from line 4 . . . . ______

7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } . . . . ______

8. Subtract line 7 from line 6. Enter the result, but not less than zero . . . . . ______

***Note:** If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 . . . . ______

10. Taxable social security benefits.

- First, enter on Form 1040, line 21a, the amount from line 1 above.
- Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b . . . . ______

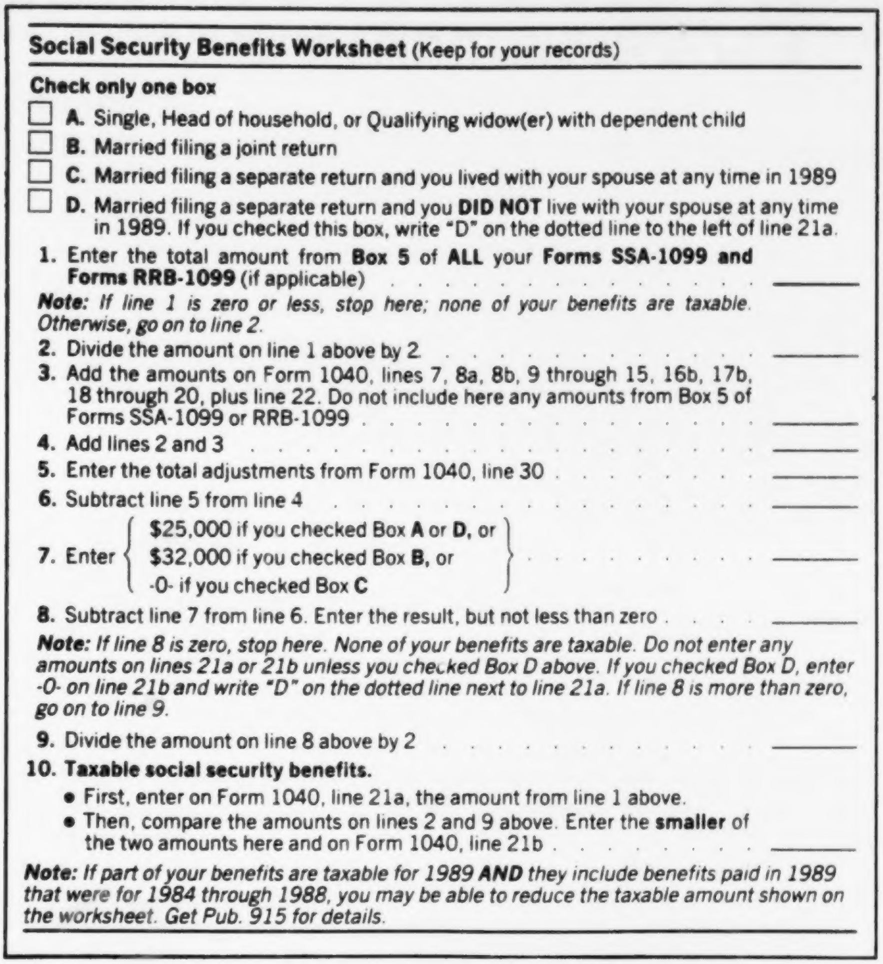
***Note:** If part of your benefits are taxable for 1989 **AND** they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 17

	14	Capital gain distributions not reported on line 13 (see page 11)	14	
	15	Other gains or (losses) *(attach Form 4797)*	15	
	16a	Total IRA distributions . . 16a ______ 16b Taxable amount (see page 11)	16b	
	17a	Total pensions and annuities 17a ______ 17b Taxable amount (see page 12)	17b	
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
	19	Farm income or (loss) *(attach Schedule F)*	19	
	20	Unemployment compensation (insurance) (see page 13)	20	
Please attach check or money order here.	21a	Social security benefits. . 21a ______ 21b Taxable amount (see page 13)	21b	
	22	Other income (list type and amount—see page 13)	22	
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

c. Assume that the Yateses had no taxable interest income, but that the other amounts are the same as in part a. The amount to enter on line 3 of the worksheet now becomes $25,000. Complete the worksheet and lines 21a and 21b, Form 1040.

Exhibit 18



Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child

☐ **B.** Married filing a joint return

☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989

☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) . . . . ________

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

2. Divide the amount on line 1 above by 2 . . . . ________

3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 . . . . ________

4. Add lines 2 and 3 . . . . ________

5. Enter the total adjustments from Form 1040, line 30 . . . . ________

6. Subtract line 5 from line 4 . . . . ________

7. Enter { $25,000 if you checked Box **A** or **D**, or
$32,000 if you checked Box **B**, or
-0- if you checked Box **C** } . . . . ________

8. Subtract line 7 from line 6. Enter the result, but not less than zero . . . . ________

Note: *If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

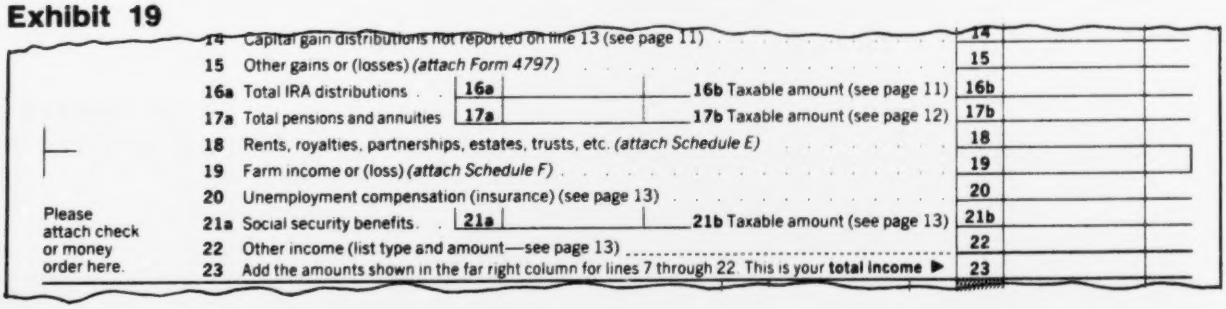
9. Divide the amount on line 8 above by 2 . . . . ________

10. Taxable social security benefits.

- First, enter on Form 1040, line 21a, the amount from line 1 above.
- Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b . . . . ________

Note: *If part of your benefits are taxable for 1989* ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 19



Please attach check or money order here.

14	Capital gain distributions not reported on line 13 (see page 11)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions . . **16a** ______ **16b** Taxable amount (see page 11)	16b	
17a	Total pensions and annuities **17a** ______ **17b** Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits . . **21a** ______ **21b** Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13) ______	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	

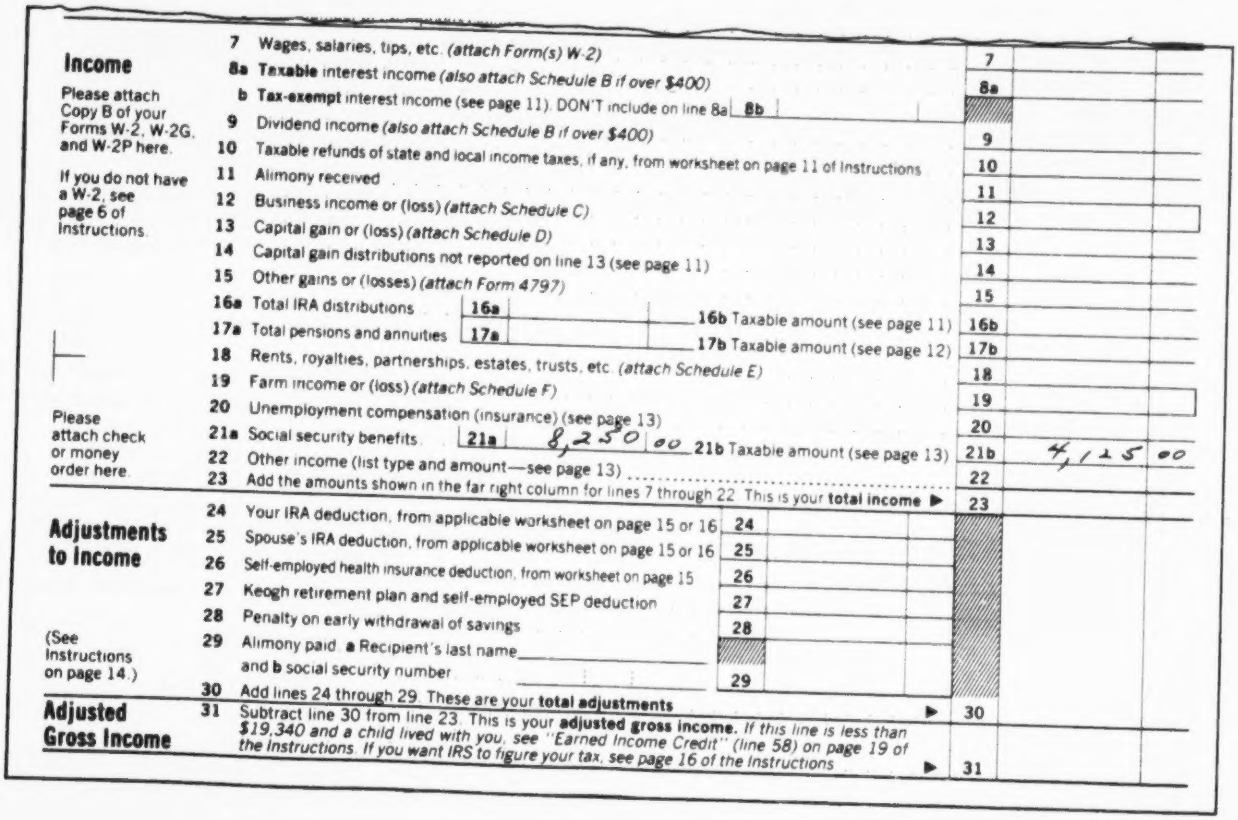
Summary

Some people who receive social security income must report part of it as taxable income. For this purpose, social security benefits include a social security equivalent part of tier 1 railroad retirement benefits as well as amounts received under title II of the Social Security Act. The payer of the benefits will have sent the taxpayer a statement of the taxpayer's benefits. By using this statement and the worksheet in the Form 1040 instructions (or the three worksheets in Publication 915, if the taxpayer has received a lump-sum benefit payment), you will be able to figure how much, if any, of the taxpayer's social security benefits to include in taxable income.

Answers to Exercises

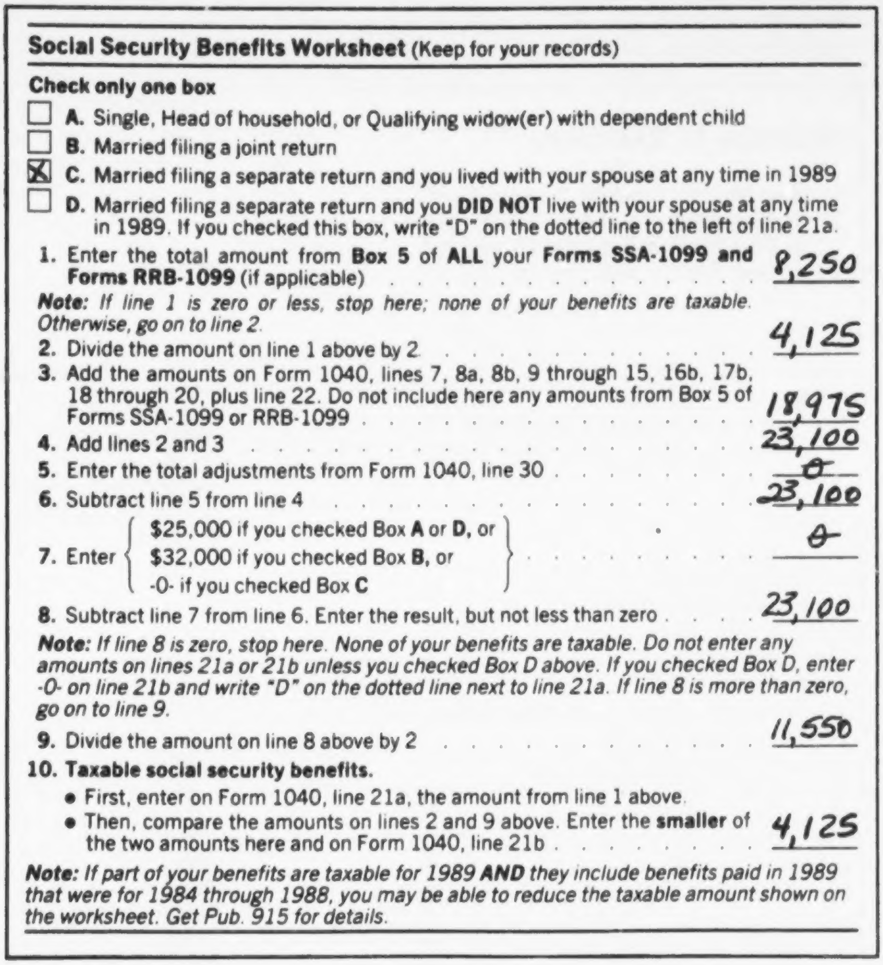
1. See filled-in Exhibits 10 and 12.
2. a. See filled-in Exhibits 14 and 15.
   b. See filled-in Exhibits 16 and 17.
   c. See filled-in Exhibits 18 and 19.

Exhibit 10, filled-in



Income	7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*		7	
	8a	**Taxable** interest income *(also attach Schedule B if over $400)*		8a	
Please attach Copy B of your Forms W-2, W-2G, and W-2P here.	b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a	8b	▨	
	9	Dividend income *(also attach Schedule B if over $400)*		9	
	10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions		10	
If you do not have a W-2, see page 6 of Instructions.	11	Alimony received		11	
	12	Business income or (loss) *(attach Schedule C)*		12	
	13	Capital gain or (loss) *(attach Schedule D)*		13	
	14	Capital gain distributions not reported on line 13 (see page 11)		14	
	15	Other gains or (losses) *(attach Form 4797)*		15	
	16a	Total IRA distributions	16a	16b Taxable amount (see page 11) 16b	
	17a	Total pensions and annuities	17a	17b Taxable amount (see page 12) 17b	
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18	
	19	Farm income or (loss) *(attach Schedule F)*		19	
Please attach check or money order here.	20	Unemployment compensation (insurance) (see page 13)		20	
	21a	Social security benefits	21a 8,250 00	21b Taxable amount (see page 13) 21b	4,125 00
	22	Other income (list type and amount—see page 13)		22	
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23	
Adjustments to Income	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	▨	
	25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	▨	
	26	Self-employed health insurance deduction, from worksheet on page 15	26	▨	
	27	Keogh retirement plan and self-employed SEP deduction	27	▨	
	28	Penalty on early withdrawal of savings	28	▨	
(See Instructions on page 14.)	29	Alimony paid. **a** Recipient's last name ______ and **b** social security number ______	29	▨	
	30	Add lines 24 through 29. These are your **total adjustments** ▶		30	
Adjusted Gross Income	31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶		31	

Exhibit 12, filled-in



Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child

☐ **B.** Married filing a joint return

☒ **C.** Married filing a separate return and you lived with your spouse at any time in 1989

☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 8,250

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

2. Divide the amount on line 1 above by 2 4,125
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 18,975
4. Add lines 2 and 3 23,100
5. Enter the total adjustments from Form 1040, line 30 . . . . -0-
6. Subtract line 5 from line 4 23,100
7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } . . . . -0-
8. Subtract line 7 from line 6. Enter the result, but not less than zero 23,100

Note: *If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 11,550
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b 4,125

Note: *If part of your benefits are taxable for 1989 **AND** they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 14, filled-in

Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child

☒ **B.** Married filing a joint return

☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989

☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 3,000

Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.

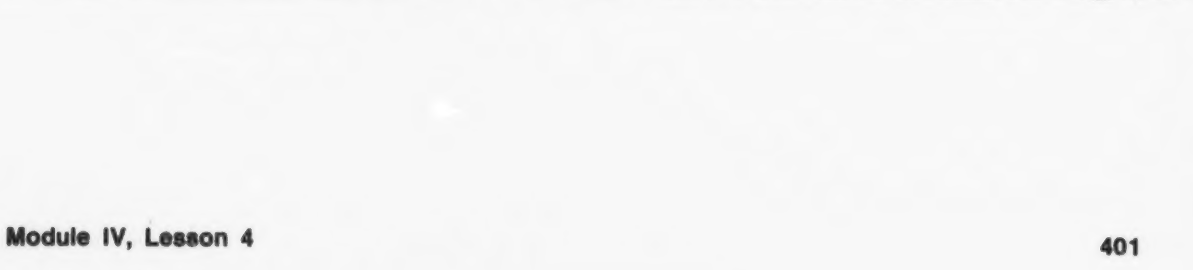
2. Divide the amount on line 1 above by 2 1,500
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 48,000
4. Add lines 2 and 3 49,500
5. Enter the total adjustments from Form 1040, line 30 150
6. Subtract line 5 from line 4 49,350
7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } 32,000
8. Subtract line 7 from line 6. Enter the result, but not less than zero 17,350

Note: If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.

9. Divide the amount on line 8 above by 2 8,675
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b 1,500

Note: *If part of your benefits are taxable for 1989* ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

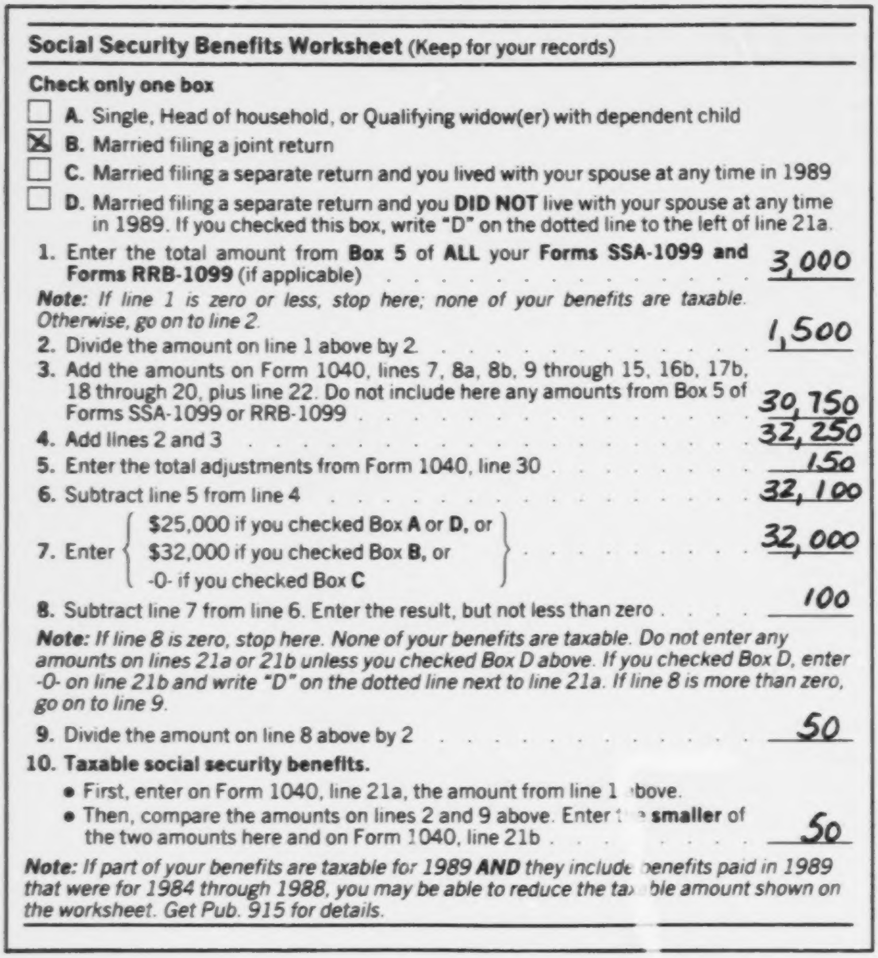
Exhibit 15, filled-in



Please attach check or money order here.

14	Capital gain distributions not reported on line 13 (see page 11)				
15	Other gains or (losses) *(attach Form 4797)*			15	
16a	Total IRA distributions	16a	16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities	17a	17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*			18	
19	Farm income or (loss) *(attach Schedule F)*			19	
20	Unemployment compensation (insurance) (see page 13)			20	
21a	Social security benefits	21a 3,000 00	21b Taxable amount (see page 13)	21b	1,500 00
22	Other income (list type and amount—see page 13)			22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶			23	

Exhibit 16, filled-in



Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child
☒ **B.** Married filing a joint return
☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989
☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 3,000

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

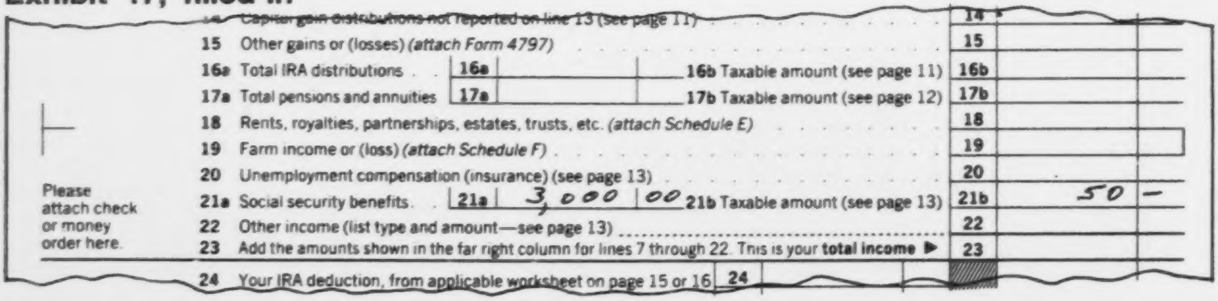
2. Divide the amount on line 1 above by 2 1,500
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 30,750
4. Add lines 2 and 3 32,250
5. Enter the total adjustments from Form 1040, line 30 150
6. Subtract line 5 from line 4 32,100
7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } 32,000
8. Subtract line 7 from line 6. Enter the result, but not less than zero 100

Note: *If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 50
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b 50

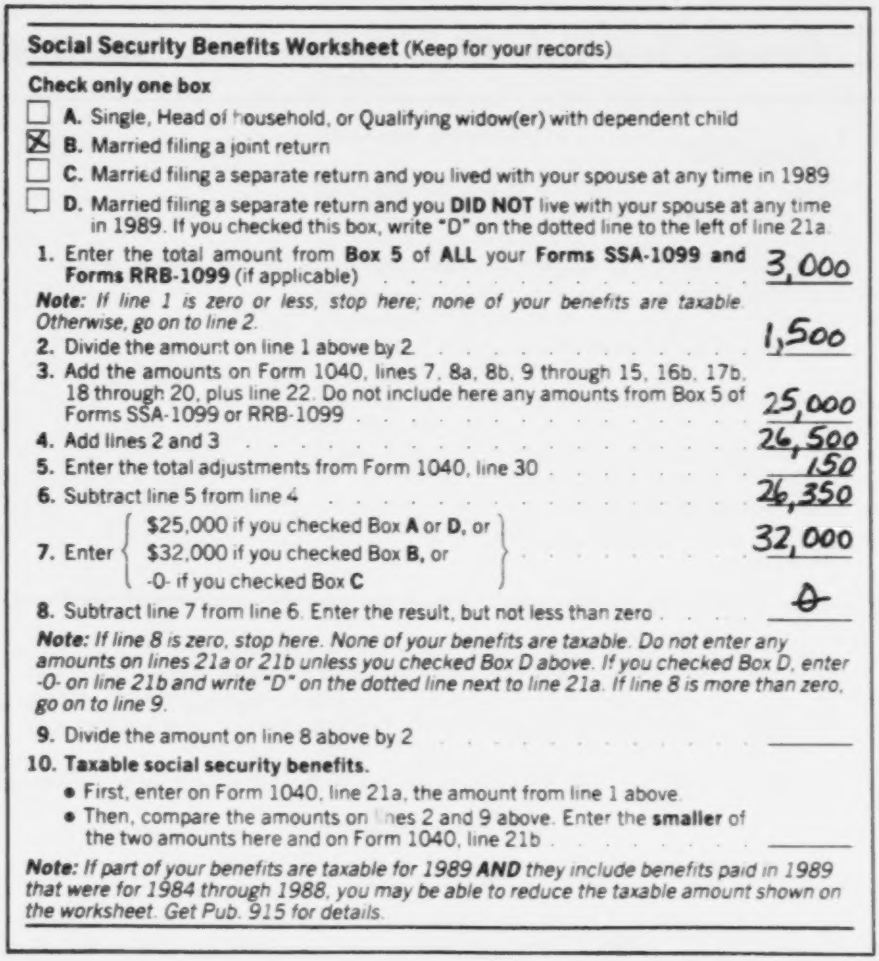
Note: *If part of your benefits are taxable for 1989* ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 17, filled-in



		Capital gain distributions not reported on line 13 (see page 11)			14	
	15	Other gains or (losses) *(attach Form 4797)*			15	
	16a	Total IRA distributions	16a	16b Taxable amount (see page 11)	16b	
	17a	Total pensions and annuities	17a	17b Taxable amount (see page 12)	17b	
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*			18	
	19	Farm income or (loss) *(attach Schedule F)*			19	
	20	Unemployment compensation (insurance) (see page 13)			20	
Please attach check or money order here.	21a	Social security benefits	21a 3,000 00	21b Taxable amount (see page 13)	21b	50 —
	22	Other income (list type and amount—see page 13)			22	
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶			23	
	24	Your IRA deduction, from applicable worksheet on page 15 or 16	24			

Exhibit 18, filled-in



Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child
☒ **B.** Married filing a joint return
☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989
☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 3,000

***Note:** If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

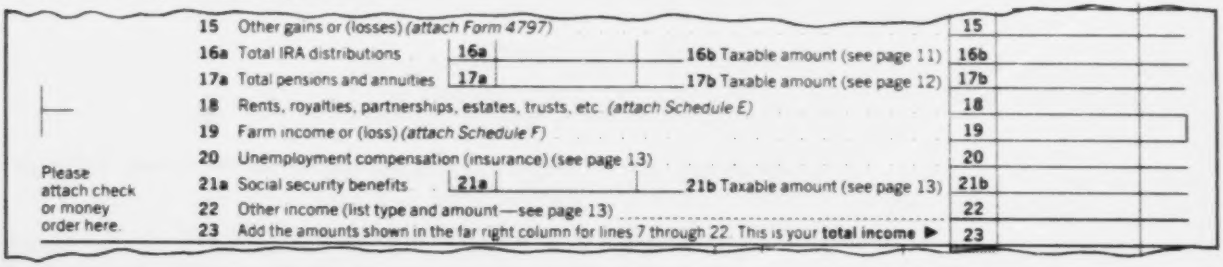
2. Divide the amount on line 1 above by 2 1,500
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 25,000
4. Add lines 2 and 3 26,500
5. Enter the total adjustments from Form 1040, line 30 150
6. Subtract line 5 from line 4 26,350
7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } 32,000
8. Subtract line 7 from line 6. Enter the result, but not less than zero . . . . . -0-

***Note:** If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 . . . . ______
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b . . . . ______

***Note:** If part of your benefits are taxable for 1989 **AND** they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit 19, filled-in



	15	Other gains or (losses) *(attach Form 4797)*			15	
	16a	Total IRA distributions	16a	16b Taxable amount (see page 11)	16b	
	17a	Total pensions and annuities	17a	17b Taxable amount (see page 12)	17b	
	18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*			18	
	19	Farm income or (loss) *(attach Schedule F)*			19	
	20	Unemployment compensation (insurance) (see page 13)			20	
Please attach check or money order here.	21a	Social security benefits	21a	21b Taxable amount (see page 13)	21b	
	22	Other income (list type and amount—see page 13)			22	
	23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶			23	

Lesson 5

Credit for the Elderly or the Disabled

Objectives

At the end of this lesson you will be able to:

1. Determine who may use Schedule R, *Credit for the Elderly or the Disabled.*
2. Complete Schedule R.

Contents

Introduction

Who May Take the Credit

Completing Schedule R

Summary

Introduction

This lesson explains a tax credit that can be claimed by some elderly and some disabled taxpayers. The credit is based on filing status, age, and income. To claim the credit, qualifying taxpayers must file Form 1040 and attach a completed Schedule R, *Credit for the Elderly or the Disabled.*

Who May Take the Credit

Taxpayers who are age 65 or over at the end of the year may qualify for the credit.

If a taxpayer is under age 65, all of the following tests must be met:

1. The taxpayer retired on permanent and total disability on the date he or she retired, or if the taxpayer retired before January 1, 1977, he or she was permanently and totally disabled on January 1, 1976, or January 1, 1977.
2. The taxpayer received taxable disability income for 1989.
3. On January 1, 1989, the taxpayer had not reached the mandatory retirement age required by his or her employer.

Permanent and Total Disability

A person is permanently and totally disabled when:

1. The person cannot engage in any substantial gainful activity because of a physical or mental condition, and
2. A physician determines that the disability has lasted or can be expected to last continuously for at least a year, or can be expected to lead to death.

The taxpayer must have previously filed a physician's statement, or if this is the first year of disability, file a physician's statement with the return. All taxpayers claiming this credit because of disability must complete Part II of Schedule R.

Example

Tom Snyder, age 34, a construction worker, receives disability pay. His condition prohibits him from doing any substantial gainful activity. His doctor has advised him that surgery will correct this condition and he will be able to resume working within 12 months. Mr. Snyder cannot take the credit on Schedule R.

Disability Income

Disability income is the total amount the taxpayer receives under his or her employer's accident and health plan or pension plan. These payments must be included in income as wages, or payments in lieu of wages (such as payments from a pension plan), for the time the taxpayer is absent from work because of permanent and total disability. Disability income does not include a lump-sum payment for accrued annual leave received by the taxpayer when he or she retired on disability.

Prior to minimum retirement age, the taxpayer's disability income will be reported as wages on Form W-2. This amount must be entered on line 7, Form 1040. After the taxpayer reaches the minimum retirement age set by his or her employer, disability income is reported on Form W-2P and is entered on line 17a and line 17b, Form 1040. The taxable amount will be shown in box 10, Form W-2P, unless the payer was unable to determine the taxable amount.

If the taxpayer received a Form W-2P, check box 14, *Distribution Code*, to see if the amount reported actually is a disability income distribution. The code number for disability income is 5553. If box 14 is blank, the taxpayer has received a normal retirement distribution that does not qualify as disability income. If another code number is shown, refer the taxpayer to a professional tax preparer. If box 14 is blank and the taxpayer states that it is disability income, refer the taxpayer to the employer or payer.

Limits on the Credit

There are certain limitations on this credit as follows:

1. The amount of credit cannot exceed the tax liability.

2. Only U.S. citizens or residents may claim the credit.

3. Married taxpayers generally must file a joint return to claim the credit. However, if a taxpayer lived apart from his or her spouse all year, the credit may be claimed on a separate return. A married taxpayer who qualifies as head of household as explained in Module II, Lesson 3, may claim the credit using the head of household filing status.

4. Taxpayers cannot exceed the income limits for their filing status as shown in the following chart. On a joint return, the income limits apply to the combined income of both spouses.

This chart shows the maximum income allowed for the credit. A taxpayer may have less than both amounts shown on the chart and still not qualify for the credit because of further adjustments to income.

	Income limits		
Filing status	Nontaxable social security and other nontaxable pensions must total less than:	and	Adjusted gross income is less than:
Single, head of household, or qualifying widow(er)	$5,000		$17,500
Married, filing joint return, one spouse eligible for credit	$5,000		$20,000
Married, filing joint return, both spouses eligible for credit	$7,500		$25,000
Married, filing separately, spouses lived apart all year	$3,750		$12,500

Figuring the Credit

The credit is computed by following the line-by-line instructions on Schedule R. However, you may find it helpful to understand how the credit is figured.

Base Amount

To figure the credit, you must start with a base amount. The base amount generally is the same as the nontaxable social security and other nontaxable pensions shown on the income limits chart. However, there are further restrictions for the base amount if the taxpayer is a qualified individual under age 65, as follows:

1. Single (including head of household and qualifying widow(er)), receives less than $5,000 of disability income, the base amount is limited to the amount of disability income.

2. Married, filing joint return, both spouses under age 65 and disabled, and their combined disability income is less than $7,500, the base amount is limited to the amount of their combined disability income.

3. Married, filing joint return, one spouse is age 65 or older and the other spouse is disabled and under 65, the base amount is $5,000 plus the disability income of the spouse under 65, but limited to a total of $7,500.

Reduced Base Amount

The base amount must be reduced by the amount of nontaxable social security and nontaxable pensions received. For a complete discussion of these payments, see Publication 17 or Publication 524, *Credit for the Elderly or the Disabled.*

Adjusted Gross Income Limit

The base amount used to figure the credit is reduced by one-half of the excess adjusted gross income. The excess adjusted gross income is the amount that exceeds the following:

Single	$ 7,500
Married, filing joint return	$10,000
Married, filing separate return	$ 5,000

After these adjustments are made, the balance is the amount upon which the credit of 15% is figured.

Example

John Ash is 68 years old and single. He received nontaxable social security benefits of $3,120. His adjusted gross income is $8,060. John's credit is figured as follows:

Base amount		$5,000
Less: Nontaxable social security	$3,120	
One-half excess adjusted gross income [($8,060–$7,500) ÷ 2]	280	3,400
Credit computation amount		$1,600
Credit (15% of $1,600)		$240

Example

Bob and Ellen Sterling file a joint return. Bob is 66 years old and Ellen is 64. Ellen does not qualify for the credit. They received $3,200 of nontaxable social security benefits. Their adjusted gross income is $9,630. The Sterlings' credit is figured as follows:

Base amount		$5,000
Less: Nontaxable social security	$3,200	
Excess adjusted gross income ($9,630–$10,000)	0	3,200
Credit computation amount		$1,800
Credit (15% of $1,800)		$270

Example

Richard Graves is single, 58 years old, and retired on permanent and total disability. He received nontaxable social security benefits of $3,000 and a taxable disability pension of $8,400. His adjusted gross income is $8,500. Richard's credit is figured as follows:

Base amount		$5,000
Taxable disability pension		$8,400
Smaller of these amounts		$5,000
Less: Nontaxable social security	$3,000	
One-half excess adjusted gross income [($8,500–$7,500) ÷ 2]	500	3,500
Credit computation amount		$1,500
Credit (15% of $1,500)		$225

Example

Bill and Helen White file a joint return. Both are under 65 years of age and both are retired on permanent and total disability. Bill received nontaxable social security benefits of $3,000 and a taxable disability pension of $6,000. Helen received a taxable disability pension of $1,000. Their adjusted gross income is $16,200. The Whites' credit is figured as follows:

Base amount		$7,500
Taxable disability income		$7,000
Smaller of these amounts		$7,000
Less: Nontaxable social security	$3,000	
One-half excess adjusted gross income [($16,200–$10,000) ÷ 2]	3,100	6,100
Credit computation amount		$ 900
Credit (15% of $900)		$ 135

Exercise 1

The taxpayers below ask you to prepare a Schedule R for them. Using the chart shown earlier under *Limits on the Credit*, determine if you should even consider the Schedule R for each taxpayer.

a. Carmen Atoka is 38 years old, an unmarried head of household, and two years ago retired from the army on total disability. She received a nontaxable veterans' pension of $6,000. Her adjusted gross income is $6,330.

Answer

b. John and Mary Higgins are both at least 65 years old. They file a joint return on which they show an adjusted gross income of $10,000. Their total nontaxable social security benefits are $7,000.

Answer

c. Donna Emery is 71 years old and was widowed three years ago. Her adjusted gross income is $18,000. She did not receive any nontaxable benefits.

Answer

d. William Nye lived with his spouse for only two months last year. He is filing a separate return on which he reports an adjusted gross income of $5,000. He is 69 years old, retired, and received railroad retirement benefits of $2,000.

Answer

Completing Schedule R

Schedule R is the form used to claim the credit for the elderly or the disabled. This form has three parts Part I and Part III must be completed by all taxpayers. Part II must be completed only by disabled taxpayers who are under age 65. If the taxpayer filed a physician's statement for disability for 1983 or an earlier year, or filed one for a disability after 1983, and the physician checked box B, Part II does not have to be completed. However, the taxpayer must mark the box after item 2 in Part II. In Part I, enter information regarding the taxpayer's age and filing status. The single filing status on Schedule R is also used by taxpayers filing as head of household or qualifying widow(er).

Example

Phyllis Nolan is 42 and single. Her adjusted gross income on Form 1040, line 31, is $11,800. She retired in 1987 with a permanent and total disability. In 1989 she received taxable disability benefits of $9,800. Her credit on Schedule R is $428, which she figures as follows:

Part I. Filing status and age. Ms. Nolan checked box 2 because she is single, under 65, and retired on permanent and total disability.

Part II. Physician's statement of permanent and total disability. Ms. Nolan submitted a physician's statement in 1987. She does not need to submit another statement. She does, however, check the box after item 2.

Part III. Credit computation.

Line 10. Ms. Nolan entered $5,000 as her base amount.
Line 11. She entered $9,800, her taxable disability benefits from line 7, Form 1040.
Line 12. $5,000 is the smaller of the base amount and the disability income.
Line 13. Ms. Nolan entered -0- because she did not receive any items listed here.
Line 14. $11,800 is Ms. Nolan's adjusted gross income from line 32, Form 1040.
Line 15. Ms. Nolan entered $7,500 because she is single.
Line 16. Her excess adjusted gross income is $4,300.
Line 17. $2,150 is half of $4,300.
Line 18. $2,150 is the total that must be subtracted from the base amount.
Line 19. $2,850 is the credit computation amount.
Line 20. Decimal amount used to figure the credit.
Line 21. $428 is the allowable credit.

Ms. Nolan will enter her $428 credit on line 42 of her Form 1040, and it will reduce her tax liability. She will attach Schedule R to Form 1040. Ms. Nolan's Schedule R is shown here as Exhibits 1 and 2.

Exhibit 1

Schedule R
(Form 1040)
Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ **For Paperwork Reduction Act Notice, see Form 1040 Instructions.**
▶ **Attach to Form 1040.** ▶ **See separate Instructions for Schedule R.**

OMB No. 1545-0074
1989
Attachment Sequence No. **17**

Name(s) shown on Form 1040: Phyllis Nolan

Your social security number: 222 00 2222

You may be able to use Schedule R to reduce your tax if by the end of 1989:

- You were 65 or older, **OR**
- You were under 65, you retired on **permanent and total** disability, and you received taxable disability income.

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R Instructions for details.

Note: *In most cases IRS can figure this credit for you. See page 16 of the Form 1040 Instructions.*

Part I **Check the Box That Applies to Your Filing Status and Age** (Check only one box)

PROOF COPY

If your filing status is:		**And by the end of 1989:**	**Check box:**
Single*	1	You were 65 or older	1 ☐
	2	You were under 65 and you retired on permanent and total disability	2 ☒
* Includes Head of household and Qualifying widow(er) with dependent child			
Married filing a joint return	3	Both spouses were 65 or older	3 ☐
	4	Both spouses were under 65, but only one spouse retired on permanent and total disability	4 ☐
	5	Both spouses were under 65, and both retired on permanent and total disability	5 ☐
	6	One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability	6 ☐
	7	One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7 ☐
Married filing a separate return	8	You were 65 or older, and you did not live with your spouse at any time in 1989	8 ☐
	9	You were under 65, you retired on permanent and total disability, and you did not live with your spouse at any time in 1989	9 ☐

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.*

Part II **Statement of Permanent and Total Disability** (Complete **only** if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1989, check this box. ▶ ☒

If you checked this box, you do not have to file another statement for 1989. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ______________________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ______________

Physician: Sign your name on **either** line A or B below and check the box to the right of your signature.

A The disability has lasted, or can be expected to last, continuously for at least a year ______________ Physician's signature ______ Date **A** ☐

B There is no reasonable probability that the disabled condition will ever improve ______________ Physician's signature ______ Date **B** ☐

Physician's name	Physician's address

Instructions for Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided.

Physician

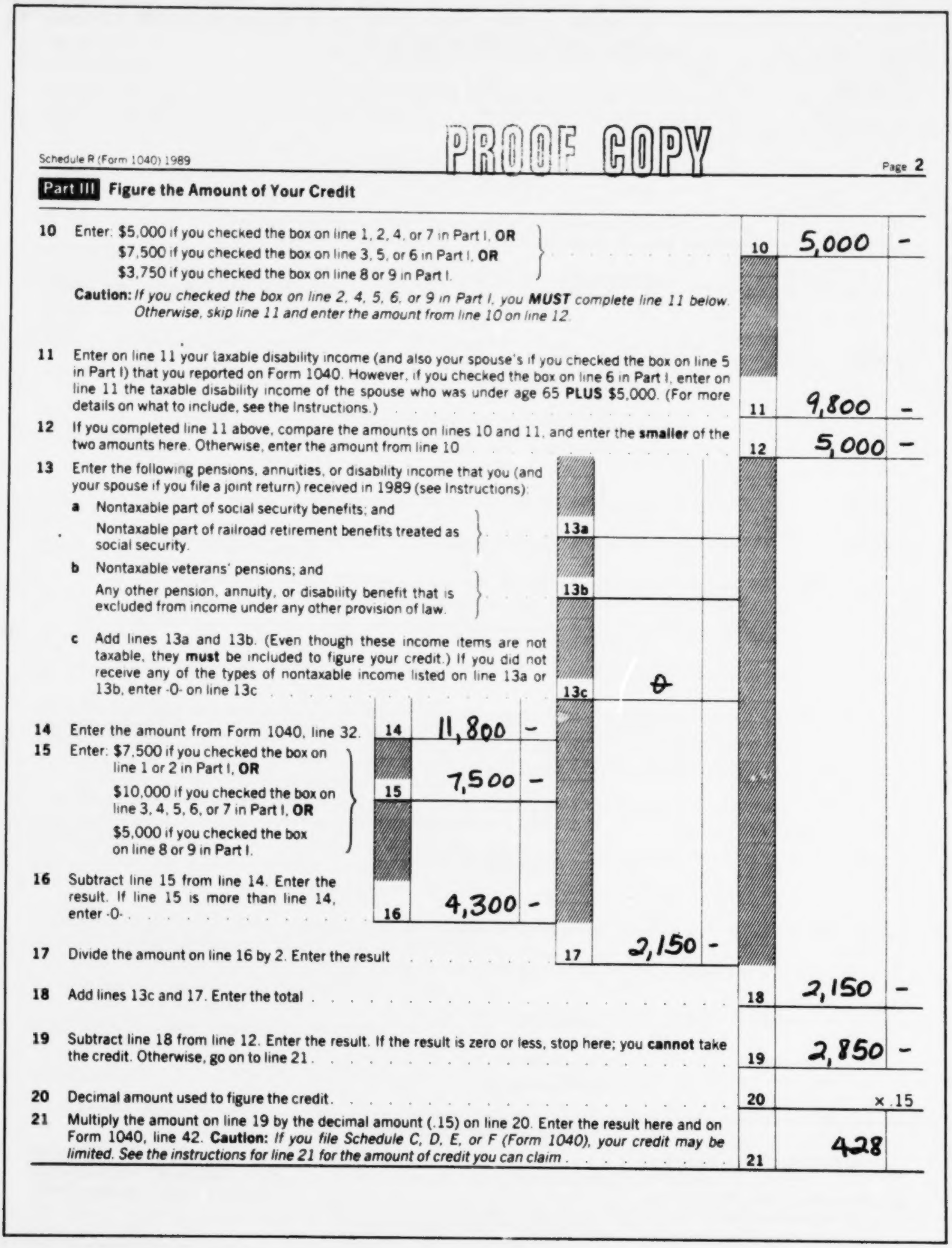
A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the disability:
  1. has lasted, or can be expected to last, continuously for at least a year; or
  2. can be expected to lead to death.

(Continued on back)

Schedule R (Form 1040) 1989

Exhibit 2



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Schedule R (Form 1040) 1989 Page **2**

Part III **Figure the Amount of Your Credit**

10 Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR**
$7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR**
$3,750 if you checked the box on line 8 or 9 in Part I. . . . . **10** 5,000 -

Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* ***MUST*** *complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*

11 Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.) . . . . . . **11** 9,800 -

12 If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10 . . . . . . **12** 5,000 -

13 Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):

- **a** Nontaxable part of social security benefits; and Nontaxable part of railroad retirement benefits treated as social security. **13a**
- **b** Nontaxable veterans' pensions; and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law. **13b**
- **c** Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c **13c** 0

14 Enter the amount from Form 1040, line 32. **14** 11,800 -

15 Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR**
$10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR**
$5,000 if you checked the box on line 8 or 9 in Part I. **15** 7,500 -

16 Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0- . . . . **16** 4,300 -

17 Divide the amount on line 16 by 2. Enter the result . . . . . . **17** 2,150 -

18 Add lines 13c and 17. Enter the total . . . . **18** 2,150 -

19 Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21 . . . . **19** 2,850 -

20 Decimal amount used to figure the credit. . . . . **20** × .15

21 Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim* **21** 428

Exercise 2

Carlos and Anita Anoka are married and file a joint return. Mrs. Anoka is 67, and Mr. Anoka is 65. The Anokas received nontaxable social security benefits of $4,500 in 1989. Their adjusted gross income is $13,000. Complete their Schedule R (Exhibits 3 and 4).

Exhibit 3

Schedule R (Form 1040)

Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ For Paperwork Reduction Act Notice, see Form 1040 Instructions.
▶ Attach to Form 1040. ▶ See separate Instructions for Schedule R.

OMB No. 1545-0074
1989
Attachment Sequence No. 17

Name(s) shown on Form 1040

Your social security number

You may be able to use Schedule R to reduce your tax if by the end of 1989:

- You were 65 or older, **OR**
- You were under 65, you retired on **permanent and total** disability, and you received taxable disability income.

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R Instructions for details.

Note: *In most cases IRS can figure this credit for you. See page 16 of the Form 1040 Instructions.*

Part I Check the Box That Applies to Your Filing Status and Age (Check only one box)

PROOF COPY

If your filing status is:		And by the end of 1989:	Check box:
Single*	1	You were 65 or older	1 ☐
	2	You were under 65 and you retired on permanent and total disability	2 ☐
	3	Both spouses were 65 or older	3 ☐
Married filing a joint return	4	Both spouses were under 65, but only one spouse retired on permanent and total disability	4 ☐
	5	Both spouses were under 65, and both retired on permanent and total disability	5 ☐
	6	One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability	6 ☐
	7	One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7 ☐
Married filing a separate return	8	You were 65 or older, and you did not live with your spouse at any time in 1989	8 ☐
	9	You were under 65, you retired on permanent and total disability, and you did not live with your spouse at any time in 1989	9 ☐

* Includes Head of household and Qualifying widow(er) with dependent child

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.*

Part II Statement of Permanent and Total Disability (Complete only if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1989, check this box. ▶ ☐

If you checked this box, you do not have to file another statement for 1989. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ____________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ____________

Physician: Sign your name on **either** line A or B below and check the box to the right of your signature.

A The disability has lasted, or can be expected to last, continuously for at least a year ____________ Physician's signature ____ Date **A** ☐

B There is no reasonable probability that the disabled condition will ever improve ____________ Physician's signature ____ Date **B** ☐

Physician's name

Physician's address

Instructions for Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided.

Physician

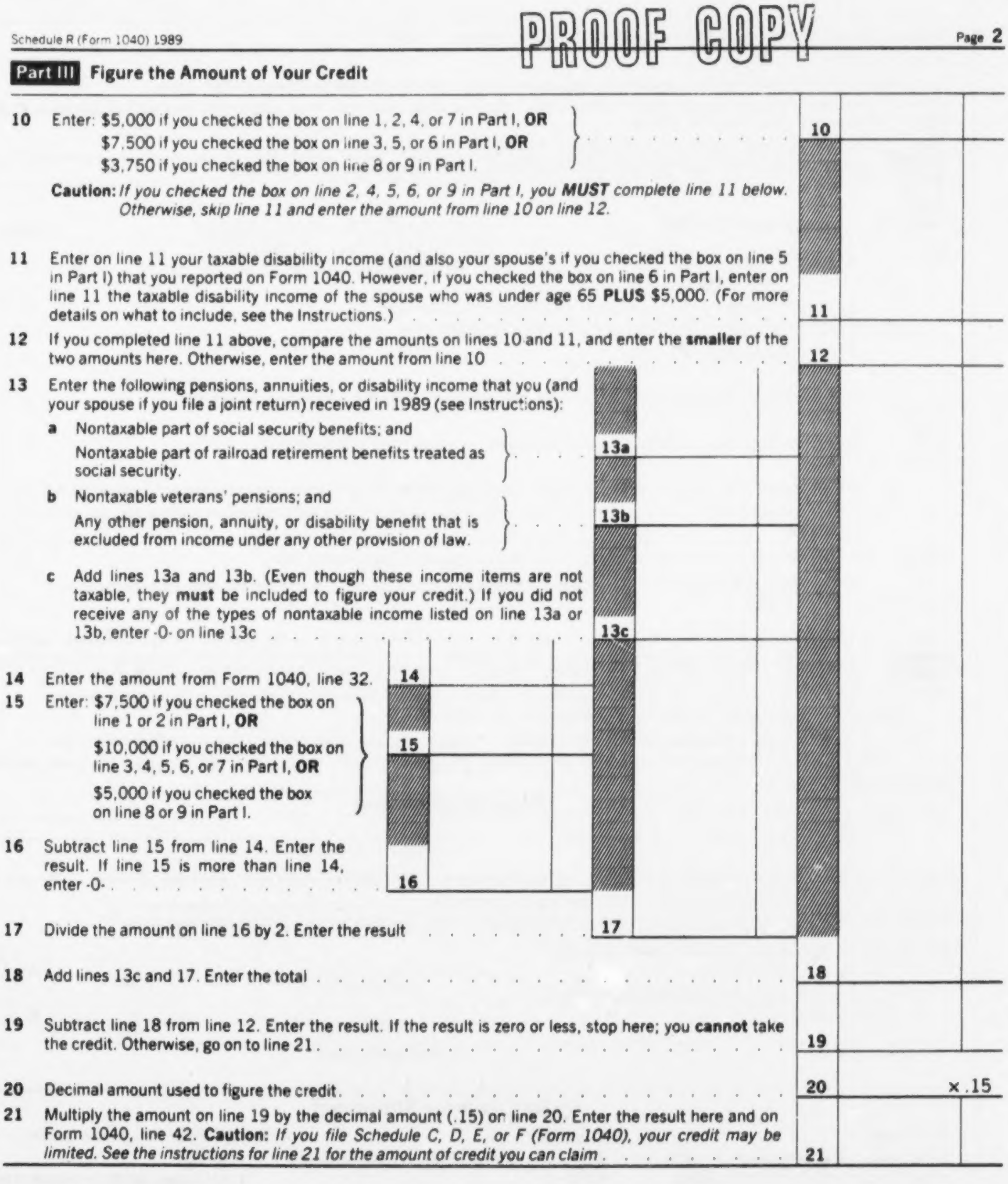
A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the disability:
  1. has lasted, or can be expected to last, continuously for at least a year; or
  2. can be expected to lead to death.

(Continued on back)

Schedule R (Form 1040) 1989

Exhibit 4



Schedule R (Form 1040) 1989

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Page 2

Part III **Figure the Amount of Your Credit**

10	Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR** $7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR** $3,750 if you checked the box on line 8 or 9 in Part I.	10	
	Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you **MUST** complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*		
11	Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.)	11	
12	If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10	12	
13	Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):		
a	Nontaxable part of social security benefits; and Nontaxable part of railroad retirement benefits treated as social security.	13a	
b	Nontaxable veterans' pensions; and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law.	13b	
c	Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c	13c	
14	Enter the amount from Form 1040, line 32.	14	
15	Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR** $10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR** $5,000 if you checked the box on line 8 or 9 in Part I.	15	
16	Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0-	16	
17	Divide the amount on line 16 by 2. Enter the result	17	
18	Add lines 13c and 17. Enter the total	18	
19	Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21	19	
20	Decimal amount used to figure the credit	20	× .15
21	Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim*	21	

Exercise 3

Benjamin and Katie Roberts are married and file a joint return. Both are under age 65. Mr. Roberts retired in July 1987 with a permanent and total disability. He submitted a physician's statement with his 1987 return. In 1989 he received a taxable disability pension of $3,900 and social security benefits of $2,000 that were not subject to tax. Their adjusted gross income is $12,200. Complete the Robertses' Schedule R (Exhibits 5 and 6).

Exhibit 5

Schedule R (Form 1040)

Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ **For Paperwork Reduction Act Notice, see Form 1040 Instructions.**
▶ **Attach to Form 1040.** ▶ **See separate instructions for Schedule R.**

OMB No. 1545-0074
1989
Attachment Sequence No. **17**

Name(s) shown on Form 1040	**Your social security number**

You may be able to use Schedule R to reduce your tax if by the end of 1989:

- You were 65 or older, **OR**
- You were under 65, you retired on **permanent and total** disability, and you received taxable disability income.

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R Instructions for details.

Note: *In most cases IRS can figure this credit for you. See page 16 of the Form 1040 Instructions.*

Part I Check the Box That Applies to Your Filing Status and Age (Check only one box)

PROOF COPY

If your filing status is:		**And by the end of 1989:**	**Check box:**
Single*	1	You were 65 or older	1 ☐
	2	You were under 65 and you retired on permanent and total disability	2 ☐
* Includes Head of household and Qualifying widow(er) with dependent child			
Married filing a joint return	3	Both spouses were 65 or older	3 ☐
	4	Both spouses were under 65, but only one spouse retired on permanent and total disability	4 ☐
	5	Both spouses were under 65, and both retired on permanent and total disability	5 ☐
	6	One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability	6 ☐
	7	One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7 ☐
Married filing a separate return	8	You were 65 or older, and you did not live with your spouse at any time in 1989	8 ☐
	9	You were under 65, you retired on permanent and total disability, and you did not live with your spouse at any time in 1989	9 ☐

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.*

Part II Statement of Permanent and Total Disability (Complete only if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1989, check this box. ▶ ☐

If you checked this box, you do not have to file another statement for 1989. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ______________________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ____________

Physician: Sign your name on **either** line A or B below and check the box to the right of your signature.

A The disability has lasted, or can be expected to last, continuously for at least a year . . . . ______________ Physician's signature ______ Date **A** ☐

B There is no reasonable probability that the disabled condition will ever improve . . . . ______________ Physician's signature ______ Date **B** ☐

Physician's name	Physician's address

Instructions for Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided.

Physician

A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the disability:
  1. has lasted, or can be expected to last, continuously for at least a year; or
  2. can be expected to lead to death.

(Continued on back)

Schedule R (Form 1040) 1989

Exhibit 6

PROOF COPY

Schedule R (Form 1040) 1989 Page **2**

Part III **Figure the Amount of Your Credit**

10 Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR**
$7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR**
$3,750 if you checked the box on line 8 or 9 in Part I ... **10**

Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* **MUST** *complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12*

11 Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.) ... **11**

12 If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10 ... **12**

13 Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):

a Nontaxable part of social security benefits; and
Nontaxable part of railroad retirement benefits treated as social security ... **13a**

b Nontaxable veterans' pensions; and
Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law ... **13b**

c Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c ... **13c**

14 Enter the amount from Form 1040, line 32 ... **14**

15 Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR**
$10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR**
$5,000 if you checked the box on line 8 or 9 in Part I ... **15**

16 Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0- ... **16**

17 Divide the amount on line 16 by 2. Enter the result ... **17**

18 Add lines 13c and 17. Enter the total ... **18**

19 Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21 ... **19**

20 Decimal amount used to figure the credit ... **20** × .15

21 Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim* ... **21**

Exercise 4

Jessica Macon is single, age 67, and retired. Ms. Macon received $1,800 in nontaxable social security benefits. Her adjusted gross income is $10,558. Complete Part III of her Schedule R (Exhibit 7).

Exhibit 7

PROOF COPY

Schedule R (Form 1040) 1989 Page 2

Part III Figure the Amount of Your Credit

10 Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR** $7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR** $3,750 if you checked the box on line 8 or 9 in Part I.	10	
Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* ***MUST*** *complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*		
11 Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.)	11	
12 If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10	12	
13 Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):		
a Nontaxable part of social security benefits; and Nontaxable part of railroad retirement benefits treated as social security.	13a	
b Nontaxable veterans' pensions; and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law.	13b	
c Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c	13c	
14 Enter the amount from Form 1040, line 32.	14	
15 Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR** $10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR** $5,000 if you checked the box on line 8 or 9 in Part I.	15	
16 Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0-	16	
17 Divide the amount on line 16 by 2. Enter the result	17	
18 Add lines 13c and 17. Enter the total	18	
19 Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21	19	
20 Decimal amount used to figure the credit.	20	× .15
21 Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim*	21	

Summary

Some taxpayers who are age 65 or over or who retired on permanent and total disability may qualify for the credit for the elderly or the disabled. The credit generally is not available to taxpayers whose income is sufficiently high that social security or equivalent railroad retirement benefits are includible in income. When you are helping taxpayers, check to see if they qualify for this credit. For additional information about the credit, see Publication 17 or Publication 524, *Credit for the Elderly or the Disabled.*

Answers to Exercises

1. a. No, because Carmen is single and her nontaxable pension is $5,000 or more.
   b. Yes, Schedule R can be considered.
   c. No, because Donna is single and her adjusted gross income is $17,500 or more.
   d. No, because William lived with his spouse some part of the tax year and did not file a joint return.
2. See filled-in Exhibits 3 and 4.
3. See filled-in Exhibits 5 and 6.
4. See filled-in Exhibit 7.

Exhibit 3, filled-in

Schedule R (Form 1040)

Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ For Paperwork Reduction Act Notice, see Form 1040 Instructions.
▶ Attach to Form 1040. ▶ See separate Instructions for Schedule R.

OMB No. 1545-0074
1989
Attachment Sequence No. 17

Name(s) shown on Form 1040: Carlos and Anita Anoka
Your social security number: 830 00 6541

You may be able to use Schedule R to reduce your tax if by the end of 1989:

- You were 65 or older, **OR**
- You were under 65, you retired on **permanent and total** disability, and you received taxable disability income.

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R Instructions for details.

Note: *In most cases IRS can figure this credit for you. See page 16 of the Form 1040 Instructions.*

Part I **Check the Box That Applies to Your Filing Status and Age** (Check only one box)

PROOF COPY

If your filing status is:	And by the end of 1989:	Check box:
Single*	1 You were 65 or older	1 ☐
	2 You were under 65 and you retired on permanent and total disability	2 ☐
* Includes Head of household and Qualifying widow(er) with dependent child		
Married filing a joint return	3 Both spouses were 65 or older	3 ☒
	4 Both spouses were under 65, but only one spouse retired on permanent and total disability	4 ☐
	5 Both spouses were under 65, and both retired on permanent and total disability	5 ☐
	6 One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability	6 ☐
	7 One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7 ☐
Married filing a separate return	8 You were 65 or older, and you did not live with your spouse at any time in 1989	8 ☐
	9 You were under 65, you retired on permanent and total disability, and you did not live with your spouse at any time in 1989	9 ☐

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.*

Part II **Statement of Permanent and Total Disability** (Complete **only** if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1989, check this box. ▶ ☐

If you checked this box, you do not have to file another statement for 1989. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ______________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ______________

Physician: Sign your name on **either** line A or B below and check the box to the right of your signature.

A The disability has lasted, or can be expected to last, continuously for at least a year . . . . ______________ Physician's signature ______ Date **A** ☐

B There is no reasonable probability that the disabled condition will ever improve . . . . ______________ Physician's signature ______ Date **B** ☐

Physician's name ______________
Physician's address ______________

Instructions for Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided.

Physician

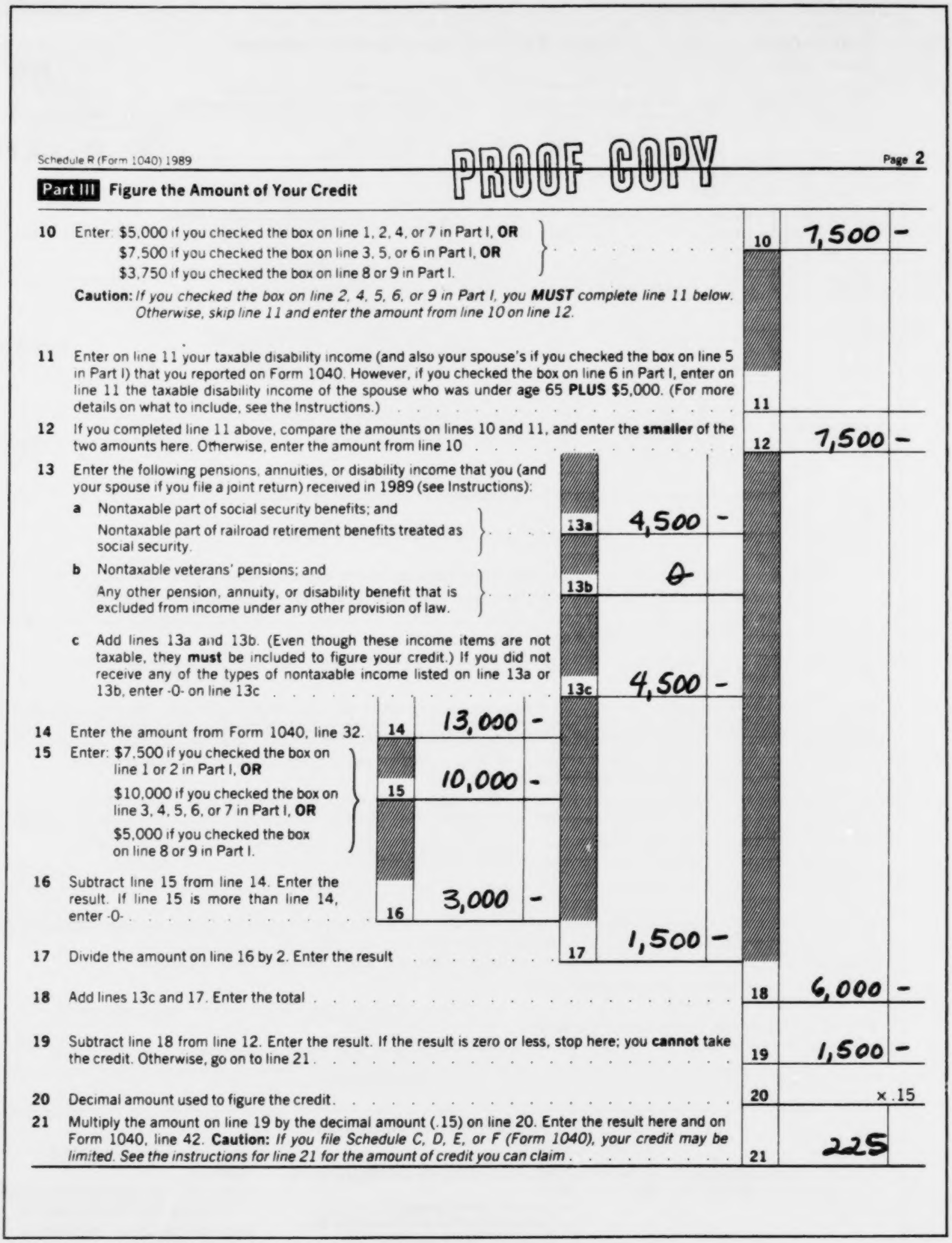
A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the disability:
  1. has lasted, or can be expected to last, continuously for at least a year; or
  2. can be expected to lead to death.

(Continued on back)

Schedule R (Form 1040) 1989

Exhibit 4, filled-in



Schedule R (Form 1040) 1989 **PROOF COPY** Page **2**

Part III **Figure the Amount of Your Credit**

10	Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR** $7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR** $3,750 if you checked the box on line 8 or 9 in Part I. **Caution:** *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* ***MUST*** *complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*			10	7,500 -
11	Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.)			11	
12	If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10			12	7,500 -
13	Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):				
a	Nontaxable part of social security benefits; and Nontaxable part of railroad retirement benefits treated as social security.		13a 4,500 -		
b	Nontaxable veterans' pensions; and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law.		13b 0		
c	Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c		13c 4,500 -		
14	Enter the amount from Form 1040, line 32.	14 13,000 -			
15	Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR** $10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR** $5,000 if you checked the box on line 8 or 9 in Part I.	15 10,000 -			
16	Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0-	16 3,000 -			
17	Divide the amount on line 16 by 2. Enter the result		17 1,500 -		
18	Add lines 13c and 17. Enter the total			18	6,000 -
19	Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21			19	1,500 -
20	Decimal amount used to figure the credit			20	× .15
21	Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim*			21	225

Exhibit 5, filled-in

Schedule R
(Form 1040)
Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ For Paperwork Reduction Act Notice, see Form 1040 Instructions.
▶ Attach to Form 1040. ▶ See separate Instructions for Schedule R.

OMB No. 1545-0074
1989
Attachment Sequence No. 17

Name(s) shown on Form 1040: Benjamin & Katie Roberts

Your social security number: 832 00 6471

You may be able to use Schedule R to reduce your tax if by the end of 1989:

- You were 65 or older, **OR**
- You were under 65, you retired on **permanent and total** disability, and you received taxable disability income.

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R Instructions for details.

Note: *In most cases IRS can figure this credit for you. See page 16 of the Form 1040 Instructions.*

Part I **Check the Box That Applies to Your Filing Status and Age** (Check only one box)

PROOF COPY

If your filing status is:	And by the end of 1989:	Check box:
Single*	1 You were 65 or older	1 ☐
	2 You were under 65 and you retired on permanent and total disability	2 ☐
* Includes Head of household and Qualifying widow(er) with dependent child		
Married filing a joint return	3 Both spouses were 65 or older	3 ☐
	4 Both spouses were under 65, but only one spouse retired on permanent and total disability	4 ☒
	5 Both spouses were under 65, and both retired on permanent and total disability	5 ☐
	6 One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability	6 ☐
	7 One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7 ☐
Married filing a separate return	8 You were 65 or older, and you did not live with your spouse at any time in 1989	8 ☐
	9 You were under 65, you retired on permanent and total disability, and you did not live with your spouse at any time in 1989	9 ☐

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.*

Part II **Statement of Permanent and Total Disability** (Complete **only** if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1989, check this box. ▶ ☒

If you checked this box, you do not have to file another statement for 1989. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ______________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ______________

Physician: Sign your name on **either** line A or B below and check the box to the right of your signature.

A The disability has lasted, or can be expected to last, continuously for at least a year . . . ______________ Physician's signature ______ Date **A** ☐

B There is no reasonable probability that the disabled condition will ever improve . . . ______________ Physician's signature ______ Date **B** ☐

Physician's name

Physician's address

Instructions for Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided.

Physician

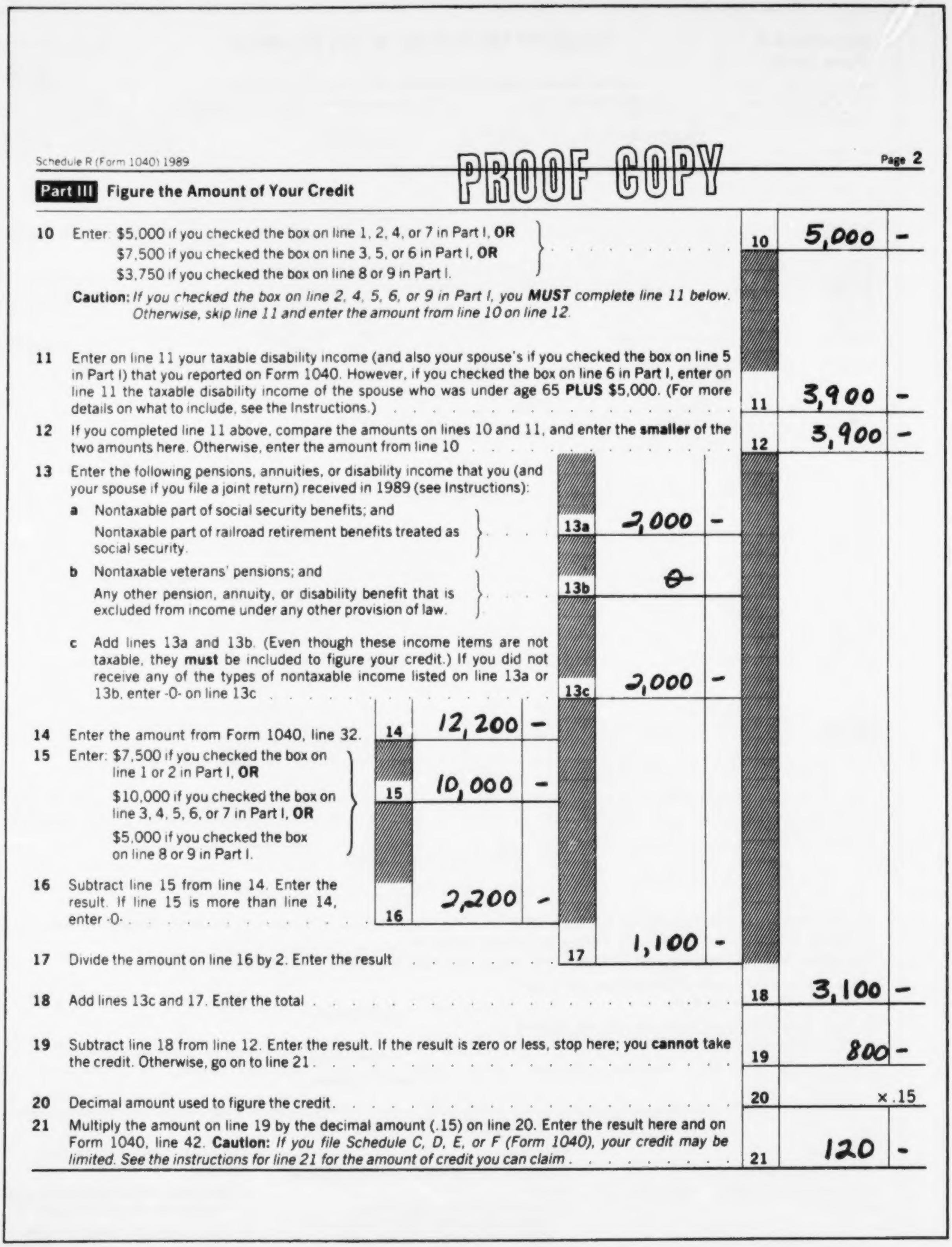
A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the disability:
  1. has lasted, or can be expected to last, continuously for at least a year; or
  2. can be expected to lead to death.

(Continued on back)

Schedule R (Form 1040) 1989

Exhibit 6, filled-in



Schedule R (Form 1040) 1989 PROOF COPY Page 2

Part III **Figure the Amount of Your Credit**

10	Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR** $7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR** $3,750 if you checked the box on line 8 or 9 in Part I. **Caution:** *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* ***MUST*** *complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*	10	5,000 -
11	Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.)	11	3,900 -
12	If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10	12	3,900 -
13	Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):		
a	Nontaxable part of social security benefits; and Nontaxable part of railroad retirement benefits treated as social security.	13a	2,000 -
b	Nontaxable veterans' pensions; and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law.	13b	-0-
c	Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c	13c	2,000 -
14	Enter the amount from Form 1040, line 32.	14	12,200 -
15	Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR** $10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR** $5,000 if you checked the box on line 8 or 9 in Part I.	15	10,000 -
16	Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0-	16	2,200 -
17	Divide the amount on line 16 by 2. Enter the result	17	1,100 -
18	Add lines 13c and 17. Enter the total	18	3,100 -
19	Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21	19	800 -
20	Decimal amount used to figure the credit	20	× .15
21	Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim*	21	120 -

Exhibit 7, filled-in

Schedule R (Form 1040) 1989 Page 2

PROOF COPY

Part III **Figure the Amount of Your Credit**

10	Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR** $7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR** $3,750 if you checked the box on line 8 or 9 in Part I.					10	5,000 -
	Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* **MUST** *complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*						
11	Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.)					11	
12	If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10					12	5,000 -
13	Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):						
a	Nontaxable part of social security benefits; and Nontaxable part of railroad retirement benefits treated as social security.			13a	1,800 -		
b	Nontaxable veterans' pensions; and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law.			13b	0-		
c	Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c			13c	1,800 -		
14	Enter the amount from Form 1040, line 32.	14	10,558 -				
15	Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR** $10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR** $5,000 if you checked the box on line 8 or 9 in Part I.	15	7,500 -				
16	Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0-	16	3,058 -				
17	Divide the amount on line 16 by 2. Enter the result			17	1,529 -		
18	Add lines 13c and 17. Enter the total					18	3,329 -
19	Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21					19	1,671 -
20	Decimal amount used to figure the credit					20	× .15
21	Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim*					21	251 -

Module IV

Lesson 6

Tax on Child's Investment Income

Objectives

At the end of this lesson you will be able to determine:

1. Children to whom the tax discussed in this lesson applies.
2. The kinds of income treated as investment income.
3. The information needed to figure the tax.

Contents

Introduction

Children to Whom Method Applies

Investment Income

Information Needed to Figure the Tax

How to Figure the Tax

Summary

Introduction

This lesson will explain which children are required to use their parents' tax rates to figure the tax on their returns. Also, it will explain which parents may elect to include their children's income on the parents' tax returns. The material in this chapter is provided only to familiarize you with this tax. It is considered to be beyond the scope of the VITA program. If a taxpayer is required to figure tax under this method, refer the taxpayer to Publication 929, *Tax Rules for Children and Dependents,* or to a professional tax preparer.

Children to Whom This Method Applies

A part of a child's investment income may be subject to tax at the parents' highest tax rate if:

1. The child is under age 14 at the end of the tax year,
2. The child's investment income is more than $1,000 for the year, and
3. Either of the child's parents is alive at the end of the year.

Investment Income

Investment income is all income that is not earned income. Earned income is salaries, wages, professional fees, and other amounts received as pay for work actually done.

Investment income is unearned income and includes interest, dividends, capital gains, rents, certain distributions from trusts, and any part of social security or pension payments that must be included in gross income on the return.

Source of Investment Income. Investment income subject to the tax on a child's investment income includes amounts based on property transferred to the child and amounts based on property purchased by the child. It does not matter when the property was transferred or who transferred the property to the child. Investment income also includes income produced by assets which the child obtained with his or her earned income (such as interest on a savings account into which the child deposited wages). Investment income based on gifts given to the child under the Uniform Gift to Minors Act is also subject to the tax.

Nontaxable Investment Income. Any nontaxable investment income a child receives, such as tax-exempt interest, is not included in figuring the amount of his or her investment income for purposes of this tax.

Example

During 1989 Phil Black, age 13, received $600 dividends, $2,100 wages, taxable interest of $1,600, capital gains of $300, and tax-exempt interest of $100. Phil's 1989 investment income subject to the tax on a child's investment income is $2,500. The wages are earned income and not investment income because wages are pay for work actually done. The tax-exempt income is not included because it is nontaxable.

Information Needed to Figure the Tax

Taxpayers will need the following information to figure a child's tax on investment income.

1. Which parent's taxable income to use.
2. The parent's or parents' taxable income.
3. The social security number of the parent (or other person) who is listed first on the return that shows the taxable income to be used to figure the child's tax.
4. The net investment income of each of the parent's other children who must use Form 8615.

How to Figure the Tax

The tax is figured on Form 8615, *Computation of Tax for Children Under Age 14 Who Have Investment Income of More Than $1,000.* See Exhibit 1.

Exhibit 1

Form **8615**

Department of the Treasury
Internal Revenue Service

Computation of Tax for Children Under Age 14 Who Have Investment Income of More Than $1,000

▶ **See instructions below and on back.**
▶ **Attach ONLY to the Child's Form 1040, Form 1040A, or Form 1040NR.**

OMB No. 1545-0998
1989
Attachment Sequence No. **33**

General Instructions

Purpose of Form. For children under age 14, investment income (such as taxable interest and dividends) over $1,000 is taxed at the parent's rate if the parent's rate is higher than the child's rate.

Do not use this form if the child's investment income is $1,000 or less. Instead, figure the tax in the normal manner on the child's income tax return. For example, if the child had $900 of taxable interest income and $200 of income from wages, Form 8615 is not required to be completed and the child's tax should be figured on Form 1040A using the Tax Table.

If the child's investment income is more than $1,000, use this form to see if any of the child's investment income is taxed at the parent's rate and, if so, to figure the child's tax. For example, if the child had $1,100 of taxable interest income and $200 of income from wages, Form 8615 should be completed and attached to the child's Form 1040A.

Investment Income. As used on this form, "investment income" includes all taxable income other than earned income as defined on page 2. It includes income such as taxable interest, dividends, capital gains, rents, royalties, etc. It also includes pension and annuity income and income (other than earned income) received as the beneficiary of a trust.

Who Must File. Generally, Form 8615 must be filed for any child who was under age 14 on January 1, 1990, and who had more than $1,000 of investment income. If neither parent was alive on December 31, 1989 do not use Form 8615. Instead, figure the child's tax based on his or her own rate.

Additional Information. For more information about the tax on investment income of children, please get **Pub. 929**, Tax Rules for Children and Dependents.

(Instructions continue on back.)

Child's name as shown on return

PROOF COPY

Child's social security number

Parent's name (first, initial, and last). (**Caution:** See instructions on back before completing.)

Parent's social security number

Parent's filing status (check one): ☐ Single, ☐ Married filing jointly, ☐ Married filing separately, ☐ Head of household, or ☐ Qualifying widow(er)

Enter number of exemptions claimed on parent's return ▶ ☐

Step 1 **Figure child's net investment income**

1	Enter the child's investment income, such as taxable interest and dividend income (see instructions). (If this amount is $1,000 or less, stop here; do not file this form.)	1	
2	If the child DID NOT itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter $1,000. If the child ITEMIZED deductions, see the instructions	2	
3	Subtract the amount on line 2 from the amount on line 1. Enter the result. (If zero or less, stop here; do not complete the rest of this form but ATTACH it to the child's return.)	3	
4	Enter the child's **taxable** income (from Form 1040, line 37; Form 1040A, line 19; or Form 1040NR, line 36)	4	
5	Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts ▶	5	

Step 2 **Figure tentative tax based on the tax rate of the parent listed above**

6	Enter the parent's **taxable** income (from Form 1040, line 37; Form 1040A, line 19; Form 1040EZ, line 5; or Form 1040NR, line 36)	6	
7	Enter the total, if any, of the net investment income from Forms 8615, line 5, of ALL OTHER children of the parent. (Do not include the amount on line 5 above.)	7	
8	Add the amounts on lines 5, 6, and 7. Enter the total	8	
9	Tax on the amount on line 8 based on the **parent's** filing status	9	
10	Enter the parent's tax (from Form 1040, line 38; Form 1040A, line 20; Form 1040EZ, line 7; or Form 1040NR, line 37)	10	
11	Subtract the amount on line 10 from the amount on line 9. Enter the result. (If no amount is entered on line 7, enter the amount from line 11 on line 13; skip lines 12a and 12b.)	11	
12a	Add the amounts on lines 5 and 7. Enter the total — 12a		
b	Divide the amount on line 5 by the amount on line 12a. Enter the result as a decimal (rounded to two places)	12b	× .
13	Multiply the amount on line 11 by the decimal amount on line 12b. Enter the result ▶	13	

Step 3 **Figure child's tax**

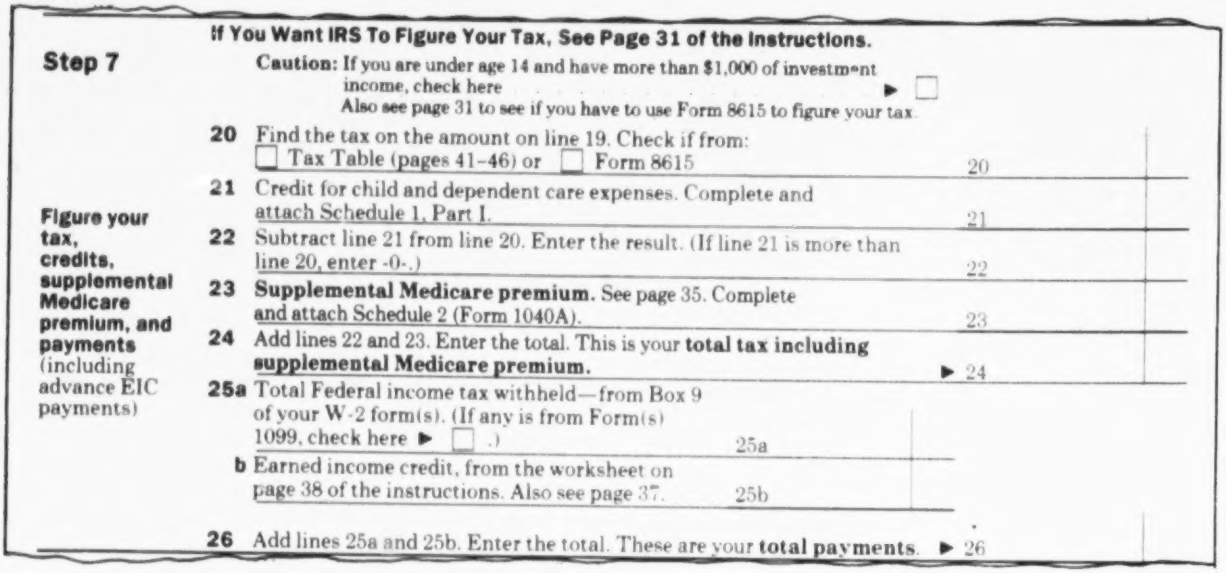
	Note: *If the amounts on lines 4 and 5 are the same, skip to line 16.*		
14	Subtract the amount on line 5 from the amount on line 4. Enter the result — 14		
15	Tax on the amount on line 14 based on the **child's** filing status	15	
16	Add the amounts on lines 13 and 15. Enter the total	16	
17	Tax on the amount on line 4 based on the **child's** filing status	17	
18	Compare the amounts on lines 16 and 17. Enter the **larger** of the two amounts here and on Form 1040, line 38; Form 1040A, line 20; or Form 1040NR, line 37. Be sure to check the box for "Form 8615" ▶	18	

For Paperwork Reduction Act Notice, see back of form.

Form **8615** (1989)

If the child is filing Form 1040A, check the box at the end of the "Caution" before line 20 and the box for Form 8615 on line 20. If filing Form 1040, check the box at the end of the "Caution" after line 37 and the box for Form 8615 on line 38. See Exhibits 2 and 3.

Exhibit 2



If You Want IRS To Figure Your Tax, See Page 31 of the Instructions.

Step 7

Caution: If you are under age 14 and have more than $1,000 of investment income, check here ▶ ☐
Also see page 31 to see if you have to use Form 8615 to figure your tax.

Figure your tax, credits, supplemental Medicare premium, and payments (including advance EIC payments)

20 Find the tax on the amount on line 19. Check if from: ☐ Tax Table (pages 41–46) or ☐ Form 8615 — 20

21 Credit for child and dependent care expenses. Complete and attach Schedule 1, Part I. — 21

22 Subtract line 21 from line 20. Enter the result. (If line 21 is more than line 20, enter -0-.) — 22

23 **Supplemental Medicare premium.** See page 35. Complete and attach Schedule 2 (Form 1040A). — 23

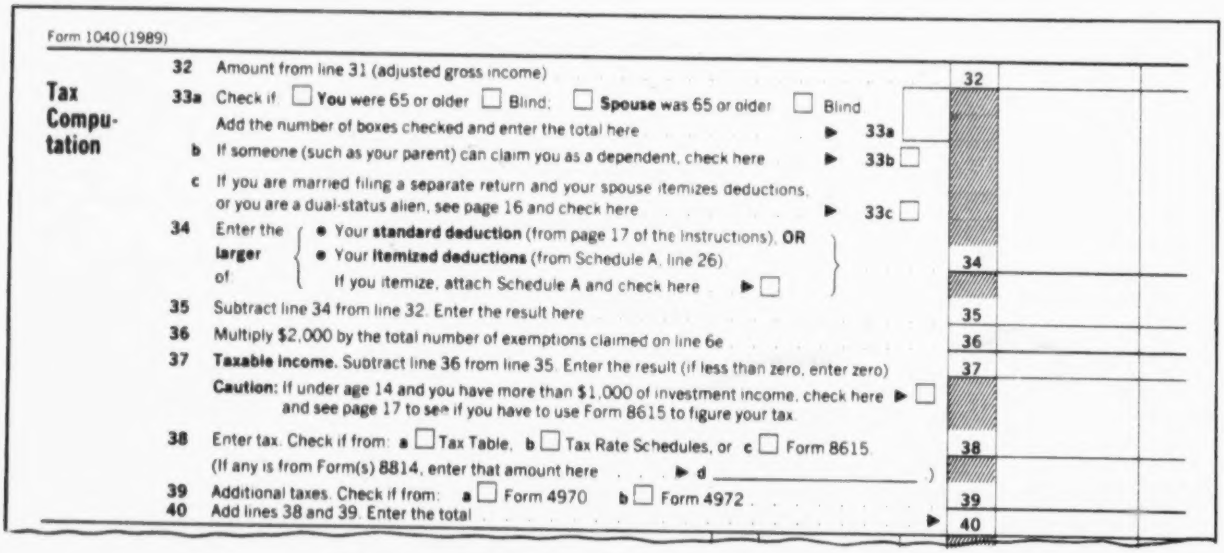
24 Add lines 22 and 23. Enter the total. This is your **total tax including supplemental Medicare premium.** ▶ 24

25a Total Federal income tax withheld—from Box 9 of your W-2 form(s). (If any is from Form(s) 1099, check here ▶ ☐.) — 25a

b Earned income credit, from the worksheet on page 38 of the instructions. Also see page 37. — 25b

26 Add lines 25a and 25b. Enter the total. These are your **total payments.** ▶ 26

Exhibit 3



Form 1040 (1989)

Tax Computation

32 Amount from line 31 (adjusted gross income) — 32

33a Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind
Add the number of boxes checked and enter the total here ▶ 33a

b If someone (such as your parent) can claim you as a dependent, check here ▶ 33b ☐

c If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶ 33c ☐

34 Enter the **larger** of:
- Your **standard deduction** (from page 17 of the instructions), **OR**
- Your **itemized deductions** (from Schedule A, line 26)

If you itemize, attach Schedule A and check here ▶ ☐ — 34

35 Subtract line 34 from line 32. Enter the result here — 35

36 Multiply $2,000 by the total number of exemptions claimed on line 6e — 36

37 **Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) — 37

Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.

38 Enter tax. Check if from: **a** ☐ Tax Table, **b** ☐ Tax Rate Schedules, or **c** ☐ Form 8615 — 38
(If any is from Form(s) 8814, enter that amount here ▶ **d** ______)

39 Additional taxes. Check if from: **a** ☐ Form 4970 **b** ☐ Form 4972 — 39

40 Add lines 38 and 39. Enter the total ▶ 40

Amount of tax. If a child is subject to tax at the parents' rates, the child's tax will be the greater of:

1. The income tax on the child's taxable income figured at the child's rate, or

2. The total of:

a. The tentative tax based on the parents' tax rates plus
b. The income tax figured at the child's rates on the amount of the child's taxable income that remains after subtracting his or her net investment income.

The tentative tax based on the parents' tax rates and net investment income are explained in Publication 929.

Example

Susan Smith, age 10, has investment income of $1,600 in 1989 and no earned income. She had no adjustments to income so her adjusted gross income is also $1,600. Her parents, Sam and Sheila Smith, claim an exemption for her on their joint tax return. They have a total of 3 exemptions and taxable income of $32,000.

Susan's standard deduction is limited to $500 because she has no earned income. Susan cannot claim an exemption on her return because her parents are able to claim an exemption for her on their return. She has no itemized deductions.

Susan's taxable income is $1,100—her total income, $1,600, minus her standard deduction, $500. The tax on Susan's taxable income from the Tax Table is $167.

The tax (from the Tax Table) on Susan's parents' taxable income of $32,000 is $4,944. The tax on Susan's parents' taxable income when added to Susan's net investment income (line 8 of Form 8615) is $5,112. Susan's completed Form 8615 is shown in Exhibit 4.

Exhibit 4

Form **8615**

Department of the Treasury
Internal Revenue Service

Computation of Tax for Children Under Age 14 Who Have Investment Income of More Than $1,000

▶ **See Instructions below and on back.**
▶ **Attach ONLY to the Child's Form 1040, Form 1040A, or Form 1040NR.**

OMB No. 1545-0998
1989
Attachment Sequence No. **33**

General Instructions

Purpose of Form. For children under age 14, investment income (such as taxable interest and dividends) over $1,000 is taxed at the parent's rate if the parent's rate is higher than the child's rate.

Do not use this form if the child's investment income is $1,000 or less. Instead, figure the tax in the normal manner on the child's income tax return. For example, if the child had $900 of taxable interest income and $200 of income from wages, Form 8615 is not required to be completed and the child's tax should be figured on Form 1040A using the Tax Table.

If the child's investment income is more than $1,000, use this form to see if any of the child's investment income is taxed at the parent's rate and, if so, to figure the child's tax. For example, if the child had $1,100 of taxable interest income and $200 of income from wages, Form 8615 should be completed and attached to the child's Form 1040A.

Investment Income. As used on this form, "investment income" includes all taxable income other than earned income as defined on page 2. It includes income such as taxable interest, dividends, capital gains, rents, royalties, etc. It also includes pension and annuity income and income (other than earned income) received as the beneficiary of a trust.

Who Must File. Generally, Form 8615 must be filed for any child who was under age 14 on January 1, 1990, and who had more than $1,000 of investment income. If neither parent was alive on December 31, 1989 do not use Form 8615. Instead, figure the child's tax based on his or her own rate.

Additional Information. For more information about the tax on investment income of children, please get **Pub. 929**, Tax Rules for Children and Dependents.

(Instructions continue on back.)

PROOF COPY

Child's name as shown on return: Susan Smith
Child's social security number: 111 00 1111

Parent's name (first, initial, and last). (**Caution:** See instructions on back before completing.): Sam Smith
Parent's social security number: 222 00 2222

Parent's filing status (check one): ☐ Single, ☒ Married filing jointly, ☐ Married filing separately, ☐ Head of household, or ☐ Qualifying widow(er)

Enter number of exemptions claimed on parent's return ▶ 3

Step 1 **Figure child's net investment income**

1	Enter the child's investment income, such as taxable interest and dividend income (see instructions). (If this amount is $1,000 or less, stop here; do not file this form.)	1	1,600 -
2	If the child DID NOT itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter $1,000. If the child ITEMIZED deductions, see the instructions	2	1,000 -
3	Subtract the amount on line 2 from the amount on line 1. Enter the result. (If zero or less, stop here; do not complete the rest of this form but ATTACH it to the child's return.)	3	600 -
4	Enter the child's **taxable** income (from Form 1040, line 37; Form 1040A, line 19; or Form 1040NR, line 36)	4	1,100 -
5	Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts ▶	5	600 -

Step 2 **Figure tentative tax based on the tax rate of the parent listed above**

6	Enter the parent's **taxable** income (from Form 1040, line 37; Form 1040A, line 19; Form 1040EZ, line 5; or Form 1040NR, line 36)	6	32,000 -
7	Enter the total, if any, of the net investment income from Forms 8615, line 5, of ALL OTHER children of the parent. (Do not include the amount on line 5 above.)	7	0
8	Add the amounts on lines 5, 6, and 7. Enter the total	8	32,600 -
9	Tax on the amount on line 8 based on the **parent's** filing status	9	5,112 -
10	Enter the parent's tax (from Form 1040, line 38; Form 1040A, line 20; Form 1040EZ, line 7; or Form 1040NR, line 37)	10	4,944 -
11	Subtract the amount on line 10 from the amount on line 9. Enter the result. (If no amount is entered on line 7, enter the amount from line 11 on line 13; skip lines 12a and 12b.)	11	168 -
12a	Add the amounts on lines 5 and 7. Enter the total — 12a: 600 -		
b	Divide the amount on line 5 by the amount on line 12a. Enter the result as a decimal (rounded to two places)	12b	×1.00
13	Multiply the amount on line 11 by the decimal amount on line 12b. Enter the result ▶	13	168 -

Step 3 **Figure child's tax**

	Note: *If the amounts on lines 4 and 5 are the same, skip to line 16.*		
14	Subtract the amount on line 5 from the amount on line 4. Enter the result — 14: 500 -		
15	Tax on the amount on line 14 based on the **child's** filing status	15	77 -
16	Add the amounts on lines 13 and 15. Enter the total	16	245 -
17	Tax on the amount on line 4 based on the **child's** filing status	17	167 -
18	Compare the amounts on lines 16 and 17. Enter the **larger** of the two amounts here and on Form 1040, line 38; Form 1040A, line 20; or Form 1040NR, line 37. Be sure to check the box for "Form 8615" ▶	18	245 -

For Paperwork Reduction Act Notice, see back of form.

Form **8615** (1989)

Inclusion of child's unearned income on parent's return

* Beginning in 1989, parents may elect to include on their tax returns their children's unearned income. If the parents make this election, the children are not required to file a tax return. However, ***all*** of the following conditions must be met:

1) The child is under age 14 and has no earned income,

2) The child has gross income only from interest and dividends (including Alaska Permanent Fund Dividends),

3) The interest and dividend income is more than $500 and less than $5,000,

4) No estimated tax payments are made during the year in the name and social security number of the child, and

5) The child is not subject to backup withholding.

Taxpayers making this election should include in their income the gross income of their children which is more than $1,000. They must also pay an additional tax equal to the smaller of $75 or 15% of their child's income over $500. Finally, certain interest from specified private activity bonds is treated as an item of tax preference of the parent.

Example

Peter, age 11, received $2,500 in interest income in 1989. This is his only source of income and he is not subject to backup withholding. No estimated tax payments were made with his name or social security number. His parents elect to include Peter's income on their tax return instead of filing a return for him. Peter's parents include $1,500 of Peter's gross income on their tax return ($2,500 gross income minus $1,000). They also must include $75 (the smaller of $75 or 15% of $2,000 ($2,500 – $500)) tax on their return.

Note. A taxpayer electing this method of reporting his or her child's income should adjust his or her withholding or estimated tax payments accordingly to avoid paying interest and penalties.

Summary

In this lesson you have learned about the tax on the investment income of children under 14. You have also learned the kinds of income treated as investment income and the kinds of information needed to figure the tax on a child's investment income.

Module IV

Lesson 7

Estimated Tax and Underpayment of Estimated Tax

Objectives

At the end of this lesson you will be able to:

1. Determine who must pay estimated tax.
2. Determine who must pay the penalty for underpayment of estimated tax.
3. Determine who meets the exceptions to the penalty or who qualifies for a waiver of the penalty.
4. Complete Part I of Form 2210, *Underpayment of Estimated Tax by Individuals and Fiduciaries.*

Contents

Introduction

Estimated Tax

Alternatives to Paying Estimated Tax

Underpayment of Estimated Tax

Summary

Answers to Exercises

Introduction

All taxpayers are required to pay each year's tax on a pay-as-you-go basis, either by having tax withheld on their wages or by paying estimated tax. For employed people, employers generally must withhold income tax and social security tax from the salaries they pay their employees. Withholding is based on the information employees provide on the Forms W–4, *Employees Withholding Allowance Certificate,* that they are required to give to their employers. People who have income that is not subject to tax withholding are personally responsible for estimating what their tax will be at the end of the year and for paying installments during the year to cover the tax owed. Usually the installments are paid quarterly. Form 1040–ES, *Estimated Tax for Individuals,* is used for this purpose.

Taxpayers who do not pay enough tax during the year may owe a penalty for underpayment of estimated tax. The penalty is added to the tax due on the return. Taxpayers will not be charged a penalty, however, if they meet one of the exceptions explained later in this lesson. Form 2210, *Underpayment of Estimated Tax by Individuals and Fiduciaries,* is used to see if enough tax was prepaid and, if not, to figure the penalty.

* **Caution: As this publication was being prepared for print, both Houses of Congress voted to repeal the supplemental Medicare premium. For additional information, see page v at the beginning of this book.**

Estimated Tax

Estimated tax is the amount the taxpayer expects to owe for the year after subtracting the withheld federal income tax and credits that the taxpayer expects to claim.

Examples of income generally not subject to income tax withholding are: interest, dividends, prizes, alimony, rent, and annuities. Individuals who sell personal assets (such as a house) for a profit, or who are subject to self-employment tax, may also have to pay estimated tax.

Supplemental Medicare Premium

Some taxpayers may owe a supplemental Medicare premium if they are eligible for Medicare Part A (hospital insurance) benefits and do not pay any monthly premiums, and their income tax is $150 or more. The supplemental premium is used to help pay the cost of the Medicare coverage for catastrophic expenses and prescription drugs.

* **Caution: As this publication was being prepared for print, both Houses of Congress voted to repeal the supplemental Medicare premium. For additional information, see page v at the beginning of this book.**

Taxpayers must add the premium to the tax shown on their 1990 income tax return. They should increase their income tax withholding or estimated tax payments for 1990 to cover the amount of their supplemental Medicare premium. Beginning in 1990 the supplemental premium will be subject to the penalty for underpayment of estimated tax, discussed later in this lesson.

The 1990 premium is based on a rate of $37.50 for each $150 of income tax (with certain adjustments), up to a maximum premium of $850. If taxpayers are married and both are eligible for Medicare Part A the maximum premium is $1,700, unless they do not live with each other at any time in 1990 and file separate returns.

If taxpayers are married and file a joint return, and only one spouse is eligible for Medicare Part A, their premium is based on one-half of their joint income tax, even if all the income is earned by the other spouse.

For more information, including a worksheet and tables for figuring the premium, see Publication 934, *Supplemental Medicare Premium*.

As a volunteer, you will advise taxpayers of the need to pay estimated tax and how to figure the amount they should pay. You should let taxpayers know that if they make estimated tax payments, they must file Form 1040 in order to claim their payments (line 57). They cannot claim estimated tax payments on Form 1040A or 1040EZ.

Who Must Pay Estimated Tax

Generally, a taxpayer must pay estimated tax if he or she expects to owe, after withholding and credits, at least $500 in tax for 1990; ***and*** the taxpayer expects his or her withholding to be less than:

1. 90% of the tax shown on the 1990 tax return, or

2. 100% of the tax shown on the 1989 tax return (assuming the return covered all 12 months).

Married taxpayers may pay estimated tax either separately or jointly. How they pay estimated tax will not limit their choice of filing status when they file their returns for the year.

Example

John Owen is single and retired. He works part-time as an usher at a movie theater. He estimates his income for 1990 to be $12,421, which includes $3,500 from which there will be no withholding. He expects his estimated tax (his total tax minus withholding and credits) to be $525. His withholding will be less than 90% of the tax shown on his 1990 tax return or 100% of the tax shown on his 1989 tax return. Since Mr. Owen's estimated tax is at least $500, he is required to pay estimated tax.

Exercise 1

Victoria Camden is single and receives a yearly pension of $12,000, from which the payer withholds federal income tax. Ms. Camden's withholding has always covered her taxes in the past. For 1990, however, she will also have $480 in taxable income from an annuity from which no tax will be withheld. Ms. Camden expects to owe about $35 with her return. Must she pay estimated tax? Why?

Answer

How to Figure Estimated Tax

To figure estimated tax, the taxpayer must estimate his or her income, deductions, and credits for 1990, taking into account all available facts that will affect these items during the year. The 1989 return will be helpful it can be used as a starting point for estimating 1990 income and deductions. While estimates will seldom be the same as actual income and deductions on the return, they should be based on all the facts. Form 1040-ES contains a worksheet that will guide you in figuring the taxpayer's estimated tax.

Be sure to use the 1990 Tax Rate Schedules in the Form 1040-ES instructions when you figure the estimated tax.

Example

Lee Baldwin is single and expects his adjusted gross income for 1990 to be $32,000. After taking all of his deductions and credits into account, using the 1990 Tax Rate Schedule, he finds that his tax for 1990 will be $4,560. Based on his year-to-date withholding from wages, his total income tax withheld for 1990 should be $2,700. His liability, over and above his withholding, would be $1,860 ($4,560 minus $2,700). If he wishes to pay his entire estimated tax liability, he would pay $465 ($1,860 divided by 4) per installment. However, since he is required to pay only 90%, or $4,104 ($4,560 times .90), he need only pay $351 per installment ($4,104 minus $2,700 = $1,404 divided by 4).

Adjusting Installments. Many taxpayers will have a change in income, deductions, credits, or exemptions during the year. Some taxpayers will have to start paying estimated tax later in the year. You should advise taxpayers to adjust each installment as their circumstances change.

The estimated tax installments being made during the year need not be in equal amounts unless the taxpayer receives his or her income evenly throughout the year.

When to Pay

Taxpayers do not have to make estimated tax payments until they receive income subject to estimated tax. For estimated tax purposes, the year is divided into four payment periods as shown in the first column of the chart below. For this reason, estimated taxes are usually paid in four installments. These installments are due April 15, June 15, September 15, and January 15 (of the following year). The number of installments a taxpayer must make is determined as follows:

Taxpayer becomes liable between:	Number of payments required:	Due date of first installment:
January 1–March 31	4	April 15
April 1–May 31	3	June 15
June 1–August 31	2	September 15
September 1–December 31	1	January 15

If any of these dates falls on a Saturday, Sunday, or legal holiday, the payment is due on the next business day.

The payment due January 15 is not required if any tax due is paid and the return is filed by January 31. Taxpayers may pay all of their estimated tax by the due date of the first installment instead of paying their estimated tax in installments.

Farmers and fishermen—special rule. A special rule for when to pay estimated tax applies to farmers and fishermen. The rule applies if the taxpayer either:

- received at least two-thirds of his or her gross income for the preceding year from farming or fishing; or
- expects to receive at least two-thirds of his or her gross income for the current year from farming or fishing.

If the special rule applies, farmers and fishermen may choose to pay tax using any of the following schedules:

1. Installment payments on the same estimated tax schedule as other taxpayers,
2. Payment of the entire estimated tax by January 15 of the next year, or
3. Payment of the entire tax due, with Form 1040, if the taxpayer files by March 1 of the next year.

This special rule does not apply to farm employees. Their income is wages, and they must follow the same rules for estimated tax as taxpayers not engaged in farming activities.

How Much Estimated Tax to Pay

As mentioned earlier, taxpayers may pay the full amount of their estimated tax by the due date of the first installment or make equal installment payments (usually four) of their entire estimated tax. However, taxpayers may choose to pay in four equal installments the lesser of 90% of the tax they expect to show on their 1990 return or 100% of the tax shown on their 1989 return (if the return covered 12 months of the year).

Taxpayers whose income varies during the year may want to figure their annualized income installments and make installment payments of that amount during the year. You can use the worksheet and the instructions in Publication 505, *Tax Withholding and Estimated Tax,* to figure out their payments.

Be sure to caution taxpayers that, if they are not sure about the accuracy of their estimate, they may want to pay in more than their annualized income installments or 90% of their estimate.

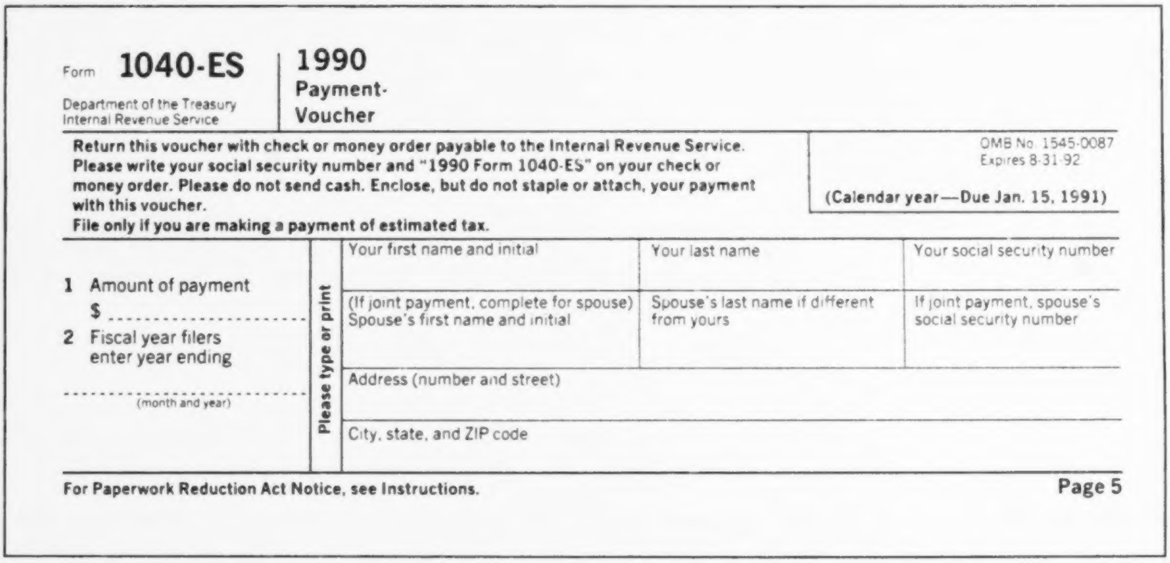
How to Pay

The payment-vouchers that come with Form 1040-ES are to be sent in with each payment. Each payment-voucher has the date when the voucher is due. Be sure to use the correct voucher. The taxpayer's name, address, social security number, and the amount of the payment are entered on the appropriate lines of the payment-voucher. The taxpayer's check or money order should have the taxpayer's social security number and "1990 Form 1040-ES" written on it.

If the taxpayer has been filing estimated tax returns, he or she should have been sent a Form 1040-ES package with the name, address, and social security number preprinted on the payment-vouchers. If the taxpayer has these preprinted forms, they should be used. If the taxpayer has not filed Form 1040-ES before, or if he or she has lost the preprinted forms, blank forms are available from the Internal Revenue Service.

A taxpayer who paid too much tax on his or her 1989 income tax return may choose to apply the overpayment to his or her estimated tax for 1990. If so, the taxpayer may apply all or part of the overpayment to any payment-voucher. The taxpayer should send the payment-voucher to the Internal Revenue Service only when making a payment.

Exhibit 1



Form **1040-ES**
Department of the Treasury
Internal Revenue Service

1990
Payment-Voucher

Return this voucher with check or money order payable to the Internal Revenue Service. Please write your social security number and "1990 Form 1040-ES" on your check or money order. Please do not send cash. Enclose, but do not staple or attach, your payment with this voucher.
File only if you are making a payment of estimated tax.

OMB No. 1545-0087
Expires 8-31-92

(Calendar year—Due Jan. 15, 1991)

1 Amount of payment
$ ____________

2 Fiscal year filers enter year ending
____________ (month and year)

Please type or print

Your first name and initial	Your last name	Your social security number
(If joint payment, complete for spouse) Spouse's first name and initial	Spouse's last name if different from yours	If joint payment, spouse's social security number
Address (number and street)		
City, state, and ZIP code		

For Paperwork Reduction Act Notice, see Instructions.

Page 5

Alternatives to Paying Estimated Tax

Taxpayers may be able to avoid making estimated tax payments. Wage earners may be able to cover tax on income not subject to withholding if they adjust their Forms W–4, *Employee's Withholding Allowance Certificate*.

You can advise these taxpayers to adjust withholding by doing one or all of the following: decreasing the number of allowances claimed on Form W–4, line 4; requesting that an additional amount be withheld on Form W–4, line 5; or, if they are married, checking the box *Married, but withhold at higher Single rate*. In any case, you will need to determine how much tax will be due on the projected income, so the taxpayer can consult with his or her payroll office to make the correct adjustments.

Taxpayers should make sure that after adjusting their withholding they will not owe $500 or more in tax. Use Publication 919, *Is My Withholding Correct for 1990?*, to check withholding.

Taxpayers receiving a pension (excluding military pension) may adjust their withholding on Form W–4P, *Withholding Certificate for Pension or Annuity Payments*. Armed Forces members receiving a military pension may only adjust their withholding on Form W-4.

Taxpayers who receive sick pay from an insurance company or other third-party payer may file Form W–4S, *Request for Federal Income Tax Withholding From Sick Pay*, to have income tax withheld.

Exercise 2

Given the following facts, determine if the taxpayers are liable for 1990 estimated tax and, if so, what other alternatives may be available.

a. Roger Scott, single, expects to have a total tax liability of $1,950 for 1990. His withholding from wages will be $1,570.

Answer

b. Paula Osborne receives a fully taxable pension of $9,500 a year. The Tax Rate Schedule shows that her 1990 tax will be $694. She elected to have no tax withheld on the pension. She is single, has no credits, and will not itemize deductions.

Answer

Exercise 3

Mark Summers comes into your office on February 1. He tells you that he cashed Series EE bonds on January 20. He has not previously reported any of the interest on the bonds. He estimates his total tax for 1990 to be $2,080. He will have $1,300 of withholding for the year. Does he have to make estimated tax payments? How much would he need to pay in each installment to cover his total estimated tax liability for 1990?

Answer

Exercise 4

Joe Weber is single. In 1990 he earns a salary of $14,000, from which tax is withheld. He also has interest income of $480. He expects to owe $223 with his tax return. Is he required to pay estimated tax?

Answer

Underpayment of Estimated Tax

The underpayment of estimated tax and the penalty for underpayment of estimated tax are figured on Form 2210, *Underpayment of Estimated Tax by Individuals and Fiduciaries.* Refer taxpayers to Publication 505 or to a professional preparer if:

1. The taxpayer wishes to use the annualized income installment method to complete Part I of Form 2210. The annualized installment method is discussed under *Figuring the Underpayment,* later.

2. The taxpayer wishes to have Part II of Form 2210 completed. Part II is used to figure the penalty. However, in most cases the Internal Revenue Service will figure the penalty. See *IRS will figure the penalty* under *Figuring the Penalty,* later.

If the taxpayer did not pay at least 90% of the total tax liability on his or her 1989 return, or 100% of the tax liability for 1988 (if the 1988 return covered a full 12 months), the taxpayer generally will be liable for a penalty. The taxpayer will not have to pay a penalty if he or she meets certain tests, explained later under *Exceptions to the Penalty.*

Exhibit 2

Form **2210**

Department of the Treasury
Internal Revenue Service

Underpayment of Estimated Tax by Individuals and Fiduciaries

▶ **See separate Instructions.**
▶ **Attach to Form 1040 or Form 1041.**

OMB No. 1545-0140
1989
Attachment Sequence No **44**

Name(s) as shown on tax return

Identifying number

Note: *In most cases, IRS can figure the penalty for you and you do not have to complete this form. See the separate instructions for more information.*

Part I Figuring Your Underpayment

PROOF COPY

1 Enter your 1989 tax after credits (from Form 1040, line 47; or Form 1041, Schedule G, line 4) 1

2 Other taxes (see Instructions) 2

3 Add lines 1 and 2 3

4 Earned income credit 4

5 Credit for Federal tax on fuels 5

6 Add lines 4 and 5 6

7 Subtract line 6 from line 3 7

8 Multiply line 7 by 90% (.90) 8

9 Withholding taxes from 1989 Form 1040, lines 56 and 60 (or Form 1041, line 24e). (Include any credit from Form 4469.) 9

10 Subtract line 9 from line 7. If the result is less than $500, **do not** complete this form. You do not owe the penalty 10

11 Enter your 1988 tax. (*Caution*: **See Instructions**.) 11

12 Enter the **smaller** of line 8 or line 11 12
If line 9 is equal to or more than line 12, **do not** *complete or file this form. You do not owe the penalty.*

		Payment Due Dates			
		(a) Apr. 15, 1989	(b) June 15, 1989	(c) Sept. 15, 1989	(d) Jan. 15, 1990
13 Divide line 12 by four (4) and enter the result in each column. However, if you use the annualized income installment method, complete the worksheet in the instructions and enter the amount from line 26 in each column of line 13. Also check this box ▶ ☐ and attach a copy of the worksheet	13				
Complete lines 14 through 21 for one column before completing the next column. 14 **Estimated tax paid and tax withheld.** (See Instructions.) For column (a) only, also enter the amount from line 14 on line 18	14				
If line 14 is equal to or more than line 13 for all payment periods, do not complete or file this form. You do not owe the penalty. *Exception: If you checked the box on line 13, see the Instructions.* 15 Enter amount, if any, from line 21 of previous column	15	▨			
16 Add lines 14 and 15	16	▨			
17 Add amounts on lines 19 and 20 of the previous column and enter the result	17	▨			
18 Subtract line 17 from line 16. If zero or less, enter zero. (For column (a) only, enter the amount from line 14.)	18				
19 Remaining underpayment from previous period. If the amount on line 18 is zero, subtract line 16 from line 17 and enter the result. Otherwise, enter zero	19	▨			
20 **Underpayment.** If line 13 is larger than or equal to line 18, subtract line 18 from line 13. Then go to line 14 of next column. Otherwise, go to line 21	20				
21 **Overpayment.** If line 18 is larger than line 13, subtract line 13 from line 18. Then go to line 14 of next column.	21				

Go to Part II to figure the penalty.

For Paperwork Reduction Act Notice, see page 1 of separate Instructions.

Form **2210** (1989)

Complete Part I of Form 2210 to see if the taxpayer paid enough tax during the year. Do not complete Form 2210 if the taxpayer wishes to use the annualized income installment method to complete Part I of the form.

For you to complete Part I of Form 2210 correctly, the taxpayer must give you information about last year's tax as well as this year's tax. Do not try to complete it unless you have all the information you need.

There is a separate form for farmers and fishermen who meet the special rule discussed earlier. They must use Form 2210F, *Underpayment of Estimated Tax by Farmers and Fishermen,* to figure the underpayment, exceptions, and/or penalty.

Example

Paul Benton made estimated tax payments of $170 each on April 17, June 15, and September 15, 1989, and January 15, 1990. He filed his 1989 tax return on April 16, 1990, showing a total tax of $730. Since each of his payments is more than 90% of one-fourth of his total tax for the year, Paul is not subject to an estimated tax penalty.

Example

John Carlton's withheld tax for 1989 was less than 90% of his tax liability. His tax liability is $1,896 for 1989 and $1,224 for 1988. He has $1,232 withholding for 1989. Since his 1989 withholding exceeds his 1988 tax liability, John is not subject to a penalty. His Form 2210, Part I, is shown in Exhibit 3.

Exhibit 3

Form **2210**

Department of the Treasury
Internal Revenue Service

Underpayment of Estimated Tax by Individuals and Fiduciaries

▶ **See separate instructions.**
▶ **Attach to Form 1040 or Form 1041.**

OMB No. 1545-0140
1989
Attachment Sequence No. **44**

Name(s) as shown on tax return: John Carlton

Identifying number 444 00 4444

Note: *In most cases, IRS can figure the penalty for you and you do not have to complete this form. See the separate instructions for more information.*

PROOF COPY

Part I Figuring Your Underpayment

1	Enter your 1989 tax after credits (from Form 1040, line 47; or Form 1041, Schedule G, line 4)			1	1,896 -
2	Other taxes (see instructions)			2	
3	Add lines 1 and 2			3	1,896 -
4	Earned income credit	4			
5	Credit for Federal tax on fuels	5			
6	Add lines 4 and 5			6	0
7	Subtract line 6 from line 3			7	1,896 -
8	Multiply line 7 by 90% (.90)	8	1,706 -		
9	Withholding taxes from 1989 Form 1040, lines 56 and 60 (or Form 1041, line 24e). (Include any credit from Form 4469.)			9	1,230 -
10	Subtract line 9 from line 7. If the result is less than $500, **do not** complete this form. You do not owe the penalty			10	666 -
11	Enter your 1988 tax. (*Caution*: **See Instructions**.)			11	1,224 -
12	Enter the **smaller** of line 8 or line 11			12	1,224 -

If line 9 is equal to or more than line 12, **do not** *complete or file this form. You do not owe the penalty.*

			Payment Due Dates			
			(a) Apr. 15, 1989	(b) June 15, 1989	(c) Sept. 15, 1989	(d) Jan. 15, 1990
13	Divide line 12 by four (4) and enter the result in each column. However, if you use the annualized income installment method, complete the worksheet in the instructions and enter the amount from line 26 in each column of line 13. Also check this box ▶ ☐ and attach a copy of the worksheet	13	306	306	306	306
	Complete lines 14 through 21 for one column before completing the next column.					
14	**Estimated tax paid and tax withheld.** (See Instructions.) For column (a) only, also enter the amount from line 14 on line 18	14	308	308	308	308
	If line 14 is equal to or more than line 13 for all payment periods, do not complete or file this form. You do not owe the penalty. *Exception: If you checked the box on line 13, see the Instructions.*					
15	Enter amount, if any, from line 21 of previous column	15	▨			
16	Add lines 14 and 15	16	▨			
17	Add amounts on lines 19 and 20 of the previous column and enter the result	17	▨			
18	Subtract line 17 from line 16. If zero or less, enter zero. (For column (a) only, enter the amount from line 14.)	18				
19	Remaining underpayment from previous period. If the amount on line 18 is zero, subtract line 16 from line 17 and enter the result. Otherwise, enter zero	19	▨			
20	**Underpayment.** If line 13 is larger than or equal to line 18, subtract line 18 from line 13. Then go to line 14 of next column. Otherwise, go to line 21	20				
21	**Overpayment.** If line 18 is larger than line 13, subtract line 13 from line 18. Then go to line 14 of next column.	21				

Go to Part II to figure the penalty.

For Paperwork Reduction Act Notice, see page 1 of separate Instructions.

Form **2210** (1989)

Figuring the Underpayment

Use Part I of Form 2210 (Exhibit 2) to see whether the taxpayer underpaid tax for any of the four payment periods during the year. Pay particular attention to the following lines:

Line 14. If the taxpayer's income varied over the year, especially if he or she received large or unexpected amounts that were not subject to withholding, you should suggest to the taxpayer that the annualized income installment method may lower the amount of, or eliminate, the taxpayer's underpayment. Refer the taxpayer to Publication 505 or to a professional preparer.

Line 15. Unless it can be shown otherwise, treat withheld federal income tax, excess social security or railroad retirement tax, and any credit from Form 4469, *Computation of Excess Medicare Tax Credit,* as if one-fourth was paid on each payment date. Be sure to include any overpayment of tax from the taxpayer's 1988 return that he or she elected to apply to 1989 estimated tax. If the taxpayer files the 1989 return by January 31, 1990, and pays the tax due with the return, include the amount of the tax paid with the return on this line. There will be no penalty for the installment due January 15, 1990.

Line 21. If there is an underpayment on this line, see if the taxpayer meets one of the exceptions or waivers discussed under *Exceptions to the Penalty.*

Exceptions to the Penalty

There are two exceptions. Taxpayers will not have to pay the penalty for underpayment of estimated tax or file Form 2210 if:

- The total tax shown on their return minus the amount paid through withholding is less than $500. To determine whether the total tax is less than $500, use lines 1 through 11 in Part I of Form 2210.
- They had no tax liability last year, were United States citizens or residents for the entire year, and their return covered a period of 12 months (or would have covered a period of 12 months if a return had been required to be filed).

A taxpayer need meet only one of these exceptions.

The penalty may be waived if:

- An underpayment results from a casualty, disaster, or other unusual circumstance and the penalty would be inequitable.
- The taxpayer retired in 1988 or 1989 after reaching age 62 or became disabled and the underpayment was due to a reasonable cause.

To claim the waiver, complete Part I and write "WAIVER" in the left margin of Part II of Form 2210. An explanation must be attached to the form. See Publication 505 for more information.

Figuring the Penalty

The penalty for underpayment of estimated tax for any installment is figured on Part II of Form 2210. Do not complete Part II. Refer the taxpayer to Publication 505 or to a professional preparer.

IRS will figure the penalty. Taxpayers may have the Internal Revenue Service figure the penalty for underpayment of estimated tax. If the taxpayer chooses to have the Internal Revenue Service figure the penalty, do not attach Form 2210. The Internal Revenue Service will figure the penalty and send a bill. If the taxpayer requests a waiver, as explained under *Exceptions to the Penalty,* Form 2210 must be completed and attached to the return.

The Internal Revenue Service will not figure the penalty if the taxpayer wishes to use the annualized installment method to complete Part I of Form 2210. Refer the taxpayer to Publication 505 or to a professional preparer.

Summary

You have now learned who must pay estimated tax, when a taxpayer must pay, how to prepare the worksheet and payment-vouchers for Form 1040–ES, the special rules that apply to farmers and fishermen, and what the alternatives are to paying estimated tax.

You have also learned when a penalty can be assessed for underpayment of estimated tax, what the exceptions and waivers to the penalty are, and how to complete Part I of Form 2210.

Answers to Exercises

1. No, because the tax due is expected to be only $35.
2. a. No, because estimated tax due is $380, which is less than $500.
   b. Yes, because estimated tax due is at least $500. As an alternative, Paula may elect to file Form W–4P and have tax withheld from her pension.
3. Yes. Each installment would be $195. His expected total liability of $2,080, less $1,300 withheld, yields his estimated tax due of $780.
4. No, because the tax due is expected to be less than $500.

Lesson 8

Tax Withholding (Form W-4 and Form W-4P)

Objectives

At the end of this lesson you will be able to:

1. Determine when Form W-4 or Form W-4P should be completed or revised.
2. Complete a basic Form W-4 and a basic Form W-4P to figure the correct number of allowances.

Contents

Introduction

Form W-4

Personal Allowances Worksheet

Deductions and Adjustments Worksheet

Two-Earner/Two-Job Worksheet

Completing Form W-4

How to Correct Allowances

Form W-4P

Completing Form W-4P

Exercises

Summary

Answers to Exercises

Introduction

The federal income tax is a pay-as-you-go tax. Taxpayers must pay the tax as they earn or receive income during the year. There are two ways to pay: either by withholding, which we will cover in this lesson, or by estimated tax (discussed in Module IV, Lesson 7).

For the employer to determine the correct amount of federal income tax to withhold, each employee must give a signed and dated Form W-4, *Employee's Withholding Allowance Certificate*, to the employer on or before starting employment. This certificate is effective upon the first payment of wages and lasts until the employee files a new Form W-4. Taxpayers with income from annuities, pensions, and certain other deferred compensation plans should use Form W-4P to notify payers whether income tax is to be withheld and on what basis.

In this lesson, your main references are Form W-4, Form W-4P, Publication 505, *Tax Withholding and Estimated Tax*, and Publication 919, *Is My Withholding Correct for 1990?*.

Form W–4

Form W–4 is used to provide the employer with enough information to withhold the proper amount of tax that will correspond to the employee's total tax liability. This form includes three types of information that an employer uses to figure the proper withholding:

- Whether to withhold at the single or married rate.
- The number of withholding allowances the employee claims.
- Whether to withhold an additional amount.

The employee figures this information from worksheets that incorporate the number of allowances, adjustments, deductions, and credits that the employee will be allowed on his/her 1990 tax return.

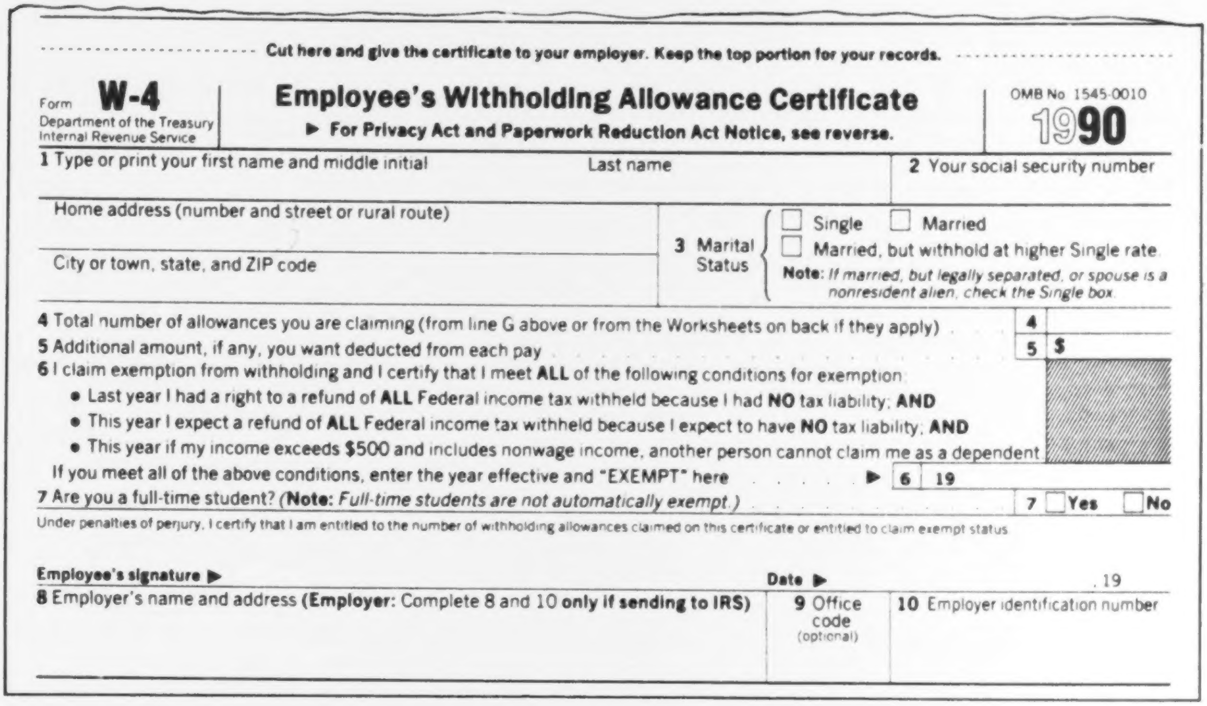
Events may take place that will change these allowances, adjustments, deductions, and credits. When this happens, the employee may have to change his/her withholding allowances by revising his/her Form W–4. The original Form W–4 remains in effect until the employee changes it.

Note: The number of allowances the employee claims on Form W–4 does not affect the number of exemptions the employee takes later on his/her tax return.

The parts of Form W–4 that the employee and you will use are the:

1. Employee's Withholding Allowance Certificate.
2. Instructions.
3. Worksheets to figure withholding allowances.
4. Tables for the worksheet.

Exhibit 1



Cut here and give the certificate to your employer. Keep the top portion for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010
1990

1 Type or print your first name and middle initial — Last name

2 Your social security number

Home address (number and street or rural route)

City or town, state, and ZIP code

3 Marital Status ☐ Single ☐ Married
☐ Married, but withhold at higher Single rate.
Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*

4 Total number of allowances you are claiming (from line G above or from the Worksheets on back if they apply) . . . 4

5 Additional amount, if any, you want deducted from each pay . . . 5 $

6 I claim exemption from withholding and I certify that I meet **ALL** of the following conditions for exemption:

- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability; **AND**
- This year if my income exceeds $500 and includes nonwage income, another person cannot claim me as a dependent.

If you meet all of the above conditions, enter the year effective and "EXEMPT" here . . . ▶ 6 19

7 Are you a full-time student? (**Note:** *Full-time students are not automatically exempt.*) . . . 7 ☐ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶ **Date ▶** , 19

8 Employer's name and address (**Employer:** Complete 8 and 10 **only if sending to IRS**)

9 Office code (optional)

10 Employer identification number

This form requires various items of information, including the number of allowances the employee is claiming. The employee must sign and date the certificate.

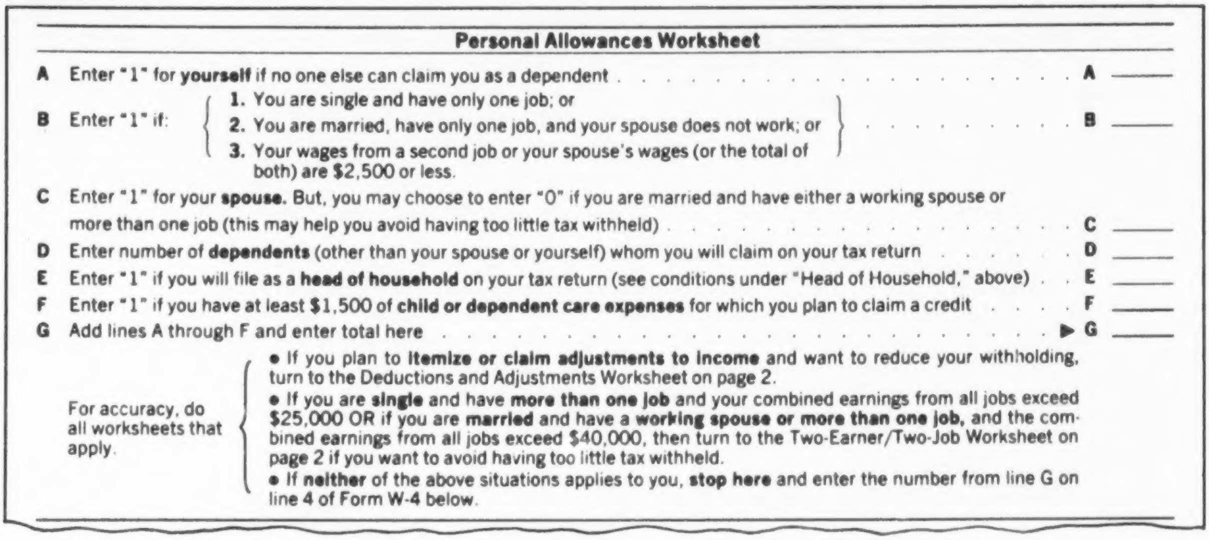
The instructions provide basic information to help the employee complete the worksheets and the certificate. To determine the correct number of allowances, the employee must complete the Personal Allowances Worksheet and the other applicable worksheets.

If an employee has a working spouse or has more than one job, figure the total number of allowances that may be claimed on all jobs using worksheets from only one Form W–4. This total can be divided among all jobs. Withholding will usually be most accurate when all allowances are claimed on the Form W–4 certificate filed for the highest paying job and zero allowances are claimed for the others.

Personal Allowances Worksheet

All employees should complete the **Personal Allowances Worksheet** first.

Exhibit 2



Personal Allowances Worksheet

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A ______

B Enter "1" if: { **1.** You are single and have only one job; or **2.** You are married, have only one job, and your spouse does not work; or **3.** Your wages from a second job or your spouse's wages (or the total of both) are $2,500 or less. } . . . . B ______

C Enter "1" for your **spouse.** But, you may choose to enter "0" if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . C ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . . . . D ______

E Enter "1" if you will file as a **head of household** on your tax return (see conditions under "Head of Household," above) . . E ______

F Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit . . . . F ______

G Add lines A through F and enter total here . . . . ▶ G ______

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $25,000 OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $40,000, then turn to the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies to you, **stop here** and enter the number from line G on line 4 of Form W-4 below.

The personal allowances worksheet takes four factors into account:

1. One allowance corresponds to each exemption (personal and dependency) that the employee may claim on a tax return. Lines A, C, and D are for this purpose.
2. If the employee is eligible to file as a head of household, he/she may claim an additional allowance on line E.
3. If a taxpayer is eligible for the credit for child and dependent care expenses and the total expenses are expected to be at least $1,500, he/she may claim an additional allowance on line F.
4. A special allowance applies to certain employees. An employee may take one additional allowance on line B if the employee is:
   - Single with only one job, or
   - Married with one job and spouse does not work, or
   - Working a second job, or spouse works, and employee's wages from a second job or spouse's wages are $2,500 or less.

Example

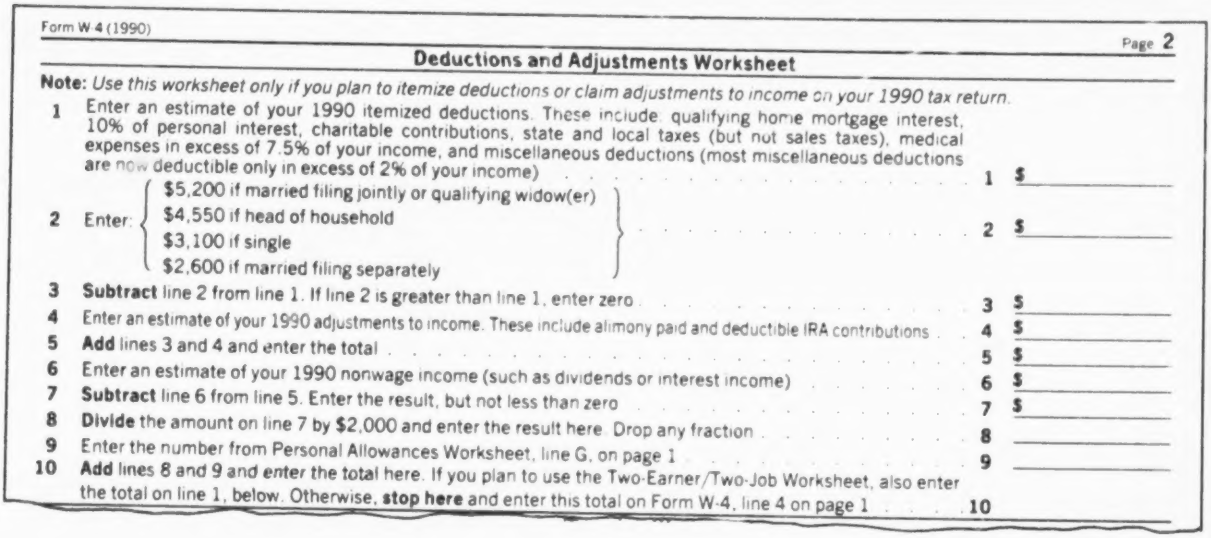
George Bently is single and has two jobs. On his second job, he expects to make $1,750. He may claim the special allowance.

If certain conditions apply, the employee should also use one or both of the other Form W-4 worksheets. Read the information immediately following line G of the Personal Allowances Worksheet.

Deductions and Adjustments Worksheet

Employees who plan to itemize deductions or claim adjustments to income should complete this worksheet. The worksheet allows additional allowances for these items.

Exhibit 3



Form W-4 (1990) Page 2

Deductions and Adjustments Worksheet

Note: *Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1 Enter an estimate of your 1990 itemized deductions. These include: qualifying home mortgage interest, 10% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . . . 1 $________

2 Enter:
- $5,200 if married filing jointly or qualifying widow(er)
- $4,550 if head of household
- $3,100 if single
- $2,600 if married filing separately

. . . . . 2 $________

3 **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . . . 3 $________

4 Enter an estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions . . 4 $________

5 **Add** lines 3 and 4 and enter the total . . . . . 5 $________

6 Enter an estimate of your 1990 nonwage income (such as dividends or interest income) . . . . 6 $________

7 **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . . . 7 $________

8 **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . . . 8 ________

9 Enter the number from Personal Allowances Worksheet, line G, on page 1 . . . . . 9 ________

10 **Add** lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise, **stop here** and enter this total on Form W-4, line 4 on page 1 10

Lines 1–8 compute additional allowances based on deductions and adjustments, less nonwage income.

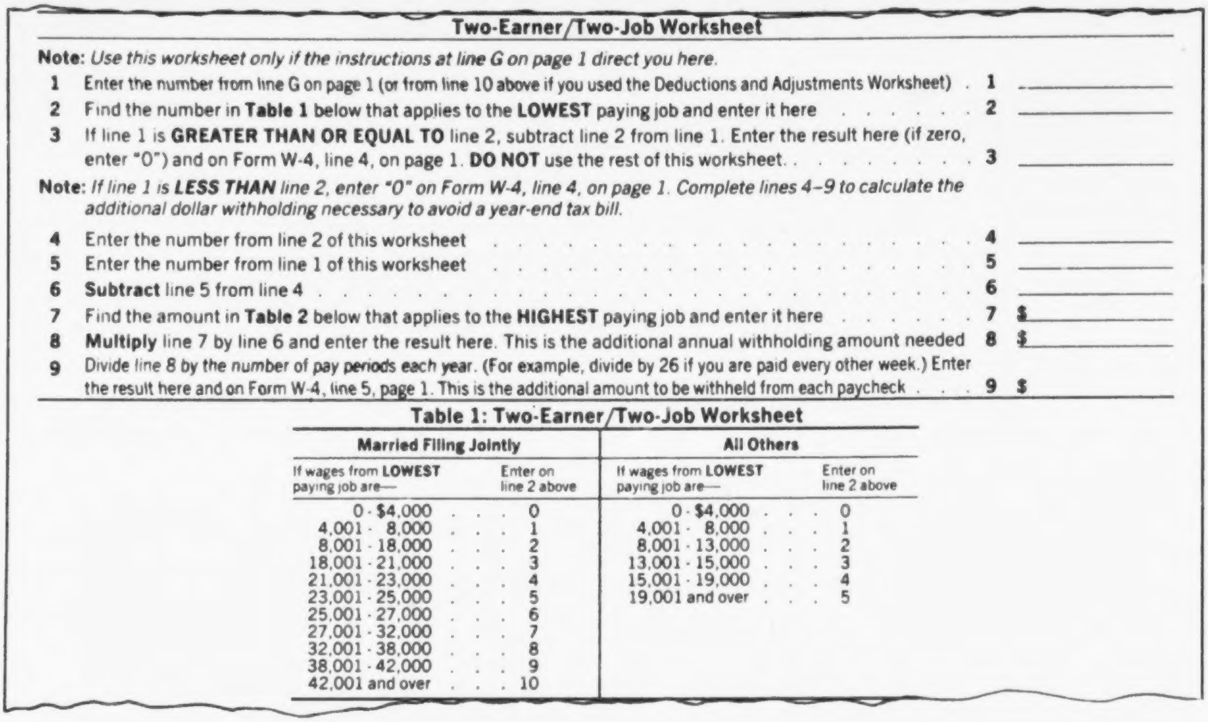
Line 9 brings forward the allowances from the Personal Allowances Worksheet.

Line 10 shows the total allowances, **unless** the employee uses the third worksheet.

Two-Earner/Two-Job Worksheet

If there are wages from at least two sources in the family unit, the employee may need to complete the **Two-Earner/Two-Job Worksheet.** The employee should use this worksheet only if the instructions after line G of the Personal Allowances Worksheet apply. See Exhibit 4.

Exhibit 4



Two-Earner/Two-Job Worksheet

Note: *Use this worksheet only if the instructions at line G on page 1 direct you here.*

1 Enter the number from line G on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) . 1 ________

2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here . . . . 2 ________

3 If line 1 is **GREATER THAN OR EQUAL TO** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "0") and on Form W-4, line 4, on page 1. **DO NOT** use the rest of this worksheet. . . . . 3 ________

Note: *If line 1 is **LESS THAN** line 2, enter "0" on Form W-4, line 4, on page 1. Complete lines 4-9 to calculate the additional dollar withholding necessary to avoid a year-end tax bill.*

4 Enter the number from line 2 of this worksheet . . . . 4 ________

5 Enter the number from line 1 of this worksheet . . . . 5 ________

6 **Subtract** line 5 from line 4 . . . . 6 ________

7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . . 7 $________

8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding amount needed 8 $________

9 Divide line 8 by the number of pay periods each year. (For example, divide by 26 if you are paid every other week.) Enter the result here and on Form W-4, line 5, page 1. This is the additional amount to be withheld from each paycheck . . . 9 $

Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from **LOWEST** paying job are—	Enter on line 2 above	If wages from **LOWEST** paying job are—	Enter on line 2 above
0 - $4,000	0	0 - $4,000	0
4,001 - 8,000	1	4,001 - 8,000	1
8,001 - 18,000	2	8,001 - 13,000	2
18,001 - 21,000	3	13,001 - 15,000	3
21,001 - 23,000	4	15,001 - 19,000	4
23,001 - 25,000	5	19,001 and over	5
25,001 - 27,000	6		
27,001 - 32,000	7		
32,001 - 38,000	8		
38,001 - 42,000	9		
42,001 and over	10		

Line 1 brings forward allowances from line G of the Personal Allowances Worksheet or line 10 of the Deductions and Adjustments Worksheet.

Lines 2–3 **reduce** the number of allowances.

Lines 4–9 figure an additional dollar amount to be deducted when necessary.

Completing Form W–4

After doing the worksheet(s), the employee can complete Form W–4. The employee should check to make sure the form is correct. Employers must send the IRS copies of Forms W–4 on which employees claimed more than 10 allowances. The IRS may ask these employees to verify their allowances. Employers must also send copies of Forms W–4 to the IRS for employees who have claimed exemption from withholding, and whose wages are expected to usually exceed $200 a week. These employees may be asked by the IRS to verify their exempt status.

Employees who are unable to verify what they have claimed may be subject to penalties.

How to Correct Allowances

After new employees have given employers their 1990 Form W–4, they should check to see if they are having enough tax withheld. After they have received their first paycheck, they can use Publication 919 as a guide to determine if they should make further changes to the W–4.

There are many instances where tax withheld based on allowances claimed on Form W–4 may not completely cover the tax liability. Advise employees that Publication 919 is available and that they should refer to it as early as possible to ensure that the correct amount is being withheld. The earlier in

1990 employees give their employers the new W–4, the more accurate their withholding should be. Remember, new W–4 forms should be submitted whenever there is a need to correct allowances or extra withholding amounts.

Exercise 1

1. Kathy and Ray Tall are married and file jointly. They have two dependent children. Kathy recently started a new job which pays $35,000 a year. Ray does not work. They have no nonwage income and expect to have a total of $8,000 in itemized deductions. They do not expect to have any other income. They do not expect to claim any adjustments to income or credits. Complete the worksheets for Form W–4 (Exhibits 5 and 6).

Exhibit 5

Personal Allowances Worksheet

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . . **A** ______

B Enter "1" if:
- 1. You are single and have only one job; or
- 2. You are married, have only one job, and your spouse does not work; or
- 3. Your wages from a second job or your spouse's wages (or the total of both) are $2,500 or less.

. . . . . **B** ______

C Enter "1" for your **spouse.** But, you may choose to enter "0" if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . . **C** ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . . . **D** ______

E Enter "1" if you will file as a **head of household** on your tax return (see conditions under "Head of Household," above) . . . . . **E** ______

F Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit . . . . . **F** ______

G Add lines A through F and enter total here . . . . . ▶ **G** ______

For accuracy, do all worksheets that apply.
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $25,000 OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $40,000, then turn to the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies to you, **stop here** and enter the number from line G on line 4 of Form W-4 below.

Cut here and give the certificate to your employer. Keep the top portion for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010
1990

1 Type or print your first name and middle initial | Last name | 2 Your social security number

Home address (number and street or rural route)

City or town, state, and ZIP code

3 Marital Status ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*

4 Total number of allowances you are claiming (from line G above or from the Worksheets on back if they apply) . . . **4** ______

5 Additional amount, if any, you want deducted from each pay . . . **5** $ ______

6 I claim exemption from withholding and I certify that I meet **ALL** of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability; **AND**
- This year if my income exceeds $500 and includes nonwage income, another person cannot claim me as a dependent.

If you meet all of the above conditions, enter the year effective and "EXEMPT" here . . . . . ▶ **6** 19

7 Are you a full-time student? (**Note:** *Full-time students are not automatically exempt.*) . . . . . **7** ☐ **Yes** ☐ **No**

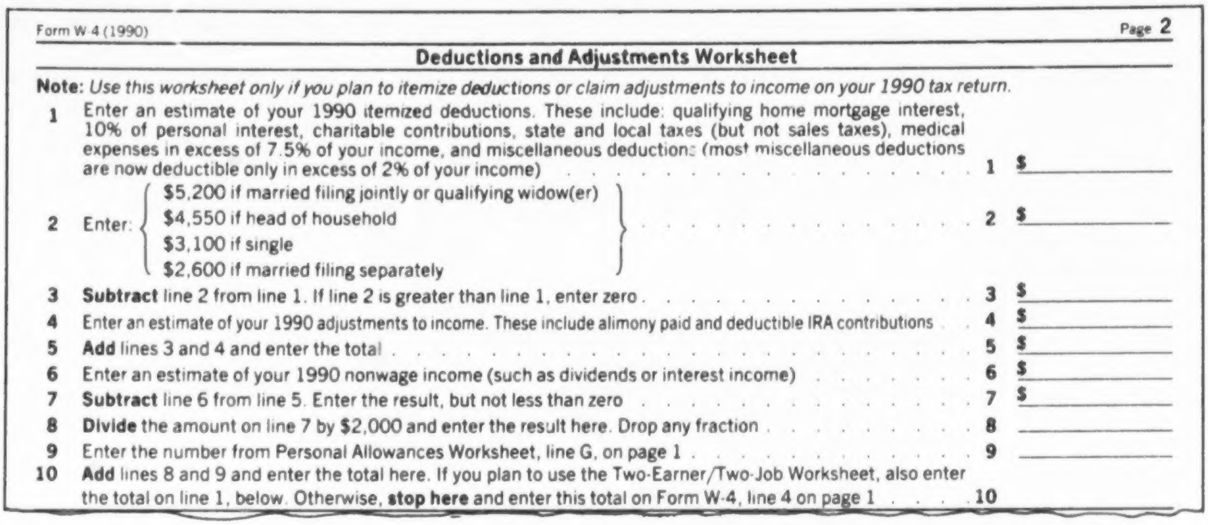
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶

Date ▶ , 19

8 Employer's name and address (**Employer:** Complete 8 and 10 **only if sending to IRS**) | 9 Office code (optional) | 10 Employer identification number

Exhibit 6



Form W-4 (1990) Page 2

Deductions and Adjustments Worksheet

Note: *Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1 Enter an estimate of your 1990 itemized deductions. These include: qualifying home mortgage interest, 10% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . . . 1 $ ______

2 Enter: { $5,200 if married filing jointly or qualifying widow(er)
 $4,550 if head of household
 $3,100 if single
 $2,600 if married filing separately } . . . . . 2 $ ______

3 **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . . . 3 $ ______

4 Enter an estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions . . 4 $ ______

5 **Add** lines 3 and 4 and enter the total . . . . . 5 $ ______

6 Enter an estimate of your 1990 nonwage income (such as dividends or interest income) . . . . . 6 $ ______

7 **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . . . 7 $ ______

8 **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . . . 8 ______

9 Enter the number from Personal Allowances Worksheet, line G, on page 1 . . . . . 9 ______

10 **Add** lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise, **stop here** and enter this total on Form W-4, line 4 on page 1 . . . . 10 ______

Exercise 2

Bob Mills files as head of household with one dependent child. He has one job with estimated wages of $30,000. He expects his itemized deductions to be $5,000 and he has estimated child care expenses of $2,400. In addition to wages, he expects $1,400 in interest income. He does not expect to claim adjustments to income. Complete the worksheets for Bob's Form W–4 (Exhibits 7 and 8).

Exhibit 7

Personal Allowances Worksheet

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . **A** ______

B Enter "1" if: { **1.** You are single and have only one job; or **2.** You are married, have only one job, and your spouse does not work; or **3.** Your wages from a second job or your spouse's wages (or the total of both) are $2,500 or less. } . . . . . **B** ______

C Enter "1" for your **spouse.** But, you may choose to enter "0" if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . . **C** ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . **D** ______

E Enter "1" if you will file as a **head of household** on your tax return (see conditions under "Head of Household," above) . . **E** ______

F Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit . . **F** ______

G Add lines A through F and enter total here . . . . ▶ **G** ______

For accuracy, do all worksheets that apply.
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $25,000 OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $40,000, then turn to the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies to you, **stop here** and enter the number from line G on line 4 of Form W-4 below.

---------------------- **Cut here and give the certificate to your employer. Keep the top portion for your records.** ----------------------

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010

1990

1 Type or print your first name and middle initial | Last name | 2 Your social security number

Home address (number and street or rural route)

City or town, state, and ZIP code

3 Marital Status: ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*

4 Total number of allowances you are claiming (from line G above or from the Worksheets on back if they apply) . . **4** ______

5 Additional amount, if any, you want deducted from each pay . . . . . **5** $ ______

6 I claim exemption from withholding and I certify that I meet **ALL** of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability; **AND**
- This year if my income exceeds $500 and includes nonwage income, another person cannot claim me as a dependent.

If you meet all of the above conditions, enter the year effective and "EXEMPT" here . . . . ▶ **6** 19

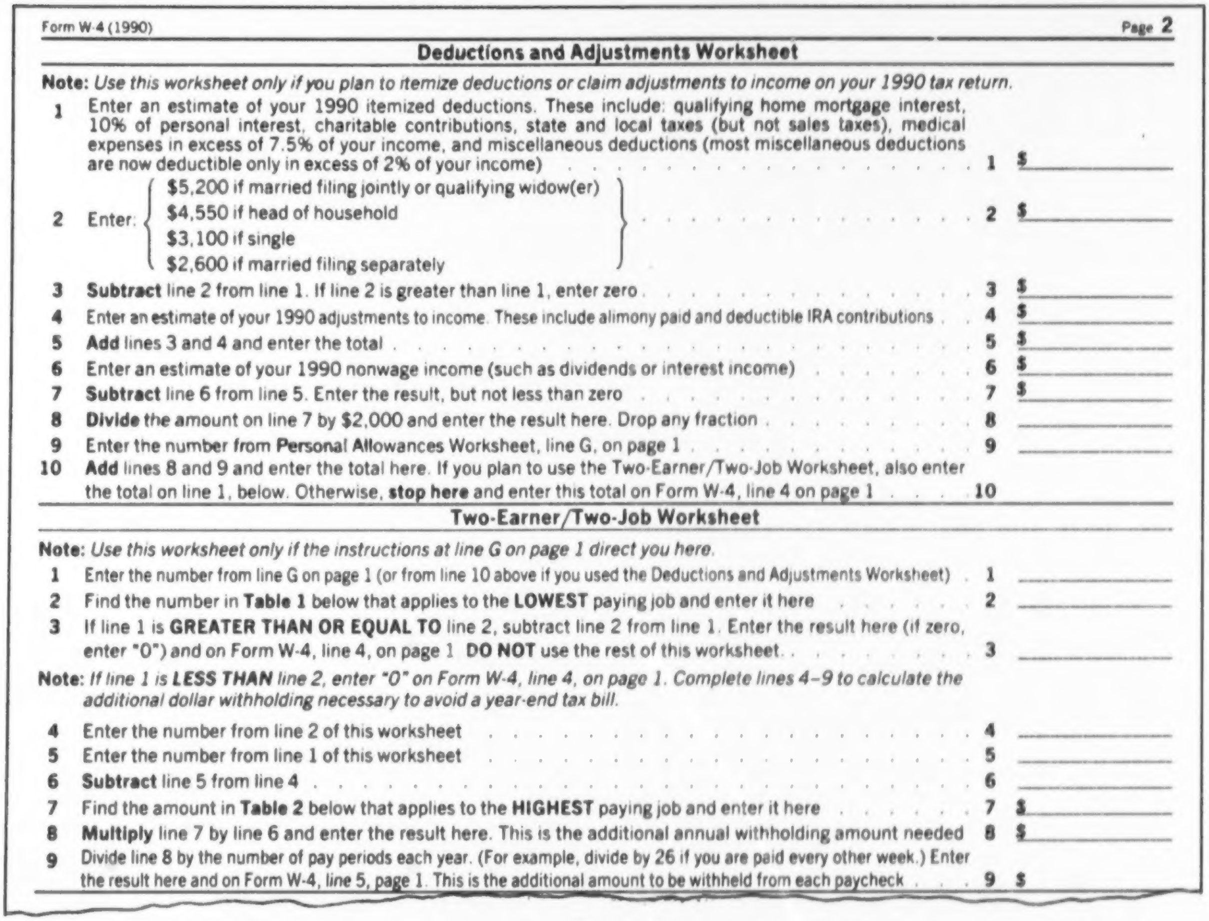
7 Are you a full-time student? (**Note:** *Full-time students are not automatically exempt.*) . . . . . **7** ☐ **Yes** ☐ **No**

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶ ______ **Date ▶** ______, 19

8 Employer's name and address (**Employer:** Complete 8 and 10 **only if sending to IRS**) | 9 Office code (optional) | 10 Employer identification number

Exhibit 8



Form W-4 (1990) Page 2

Deductions and Adjustments Worksheet

Note: *Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1 Enter an estimate of your 1990 itemized deductions. These include: qualifying home mortgage interest, 10% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . 1 $

2 Enter: { $5,200 if married filing jointly or qualifying widow(er); $4,550 if head of household; $3,100 if single; $2,600 if married filing separately } . . . 2 $

3 **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . 3 $

4 Enter an estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions . . 4 $

5 **Add** lines 3 and 4 and enter the total . . . 5 $

6 Enter an estimate of your 1990 nonwage income (such as dividends or interest income) . . . 6 $

7 **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . 7 $

8 **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . 8

9 Enter the number from **Personal Allowances** Worksheet, line G, on page 1 . . . 9

10 **Add** lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise, **stop here** and enter this total on Form W-4, line 4 on page 1 . . . 10

Two-Earner/Two-Job Worksheet

Note: *Use this worksheet only if the instructions at line G on page 1 direct you here.*

1 Enter the number from line G on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) . 1

2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here . . . 2

3 If line 1 is **GREATER THAN OR EQUAL TO** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "0") and on Form W-4, line 4, on page 1. **DO NOT** use the rest of this worksheet . . . 3

Note: *If line 1 is **LESS THAN** line 2, enter "0" on Form W-4, line 4, on page 1. Complete lines 4–9 to calculate the additional dollar withholding necessary to avoid a year-end tax bill.*

4 Enter the number from line 2 of this worksheet . . . 4

5 Enter the number from line 1 of this worksheet . . . 5

6 **Subtract** line 5 from line 4 . . . 6

7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . 7 $

8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding amount needed 8 $

9 Divide line 8 by the number of pay periods each year. (For example, divide by 26 if you are paid every other week.) Enter the result here and on Form W-4, line 5, page 1. This is the additional amount to be withheld from each paycheck . . . 9 $

Form W–4P

✶ Form W–4P is used by recipients of income from annuities, pensions and certain other deferred compensation to notify payers whether income tax is to be withheld and on what basis. The amount withheld depends on whether the taxpayer receives payments spread out over more than one year (periodic payments) or whether the taxpayer receives all of the payments within one year (nonperiodic payments). Periodic payments and nonperiodic payments are discussed later in this lesson.

Unless a taxpayer chooses not to have any tax withheld, income tax will generally be withheld from distributions the taxpayer receives on his or her pension or annuity. This includes distributions from:

A pension, annuity, or profit sharing plan.

An individual retirement arrangement (IRA).

A life insurance company under an endowment, annuity, or life insurance contract.

A stock-bonus plan.

Exception: Retirement pay for service in the Armed Forces of the U.S. is generally treated in the same manner as wages and not as a pension or annuity for income tax purposes. Use Form W–4, not Form W–4P, if the taxpayer is receiving income from a military pension.

Periodic Payments

Payments that a taxpayer receives in installments at regular intervals over a period of more than a full year from the date of the pension or annuity are periodic payments. For the purpose of withholding, periodic payments of a pension or annuity are treated in the same way as withholding from salaries and wages. However, the withholding rules for pensions and annuities differ from those for salaries and wages in the following ways:

> If the taxpayer does not fill out a withholding certificate, tax will be withheld as if the taxpayer is married and is claiming three withholding allowances.
>
> A taxpayer can choose **not** to have tax withheld, regardless of how much tax he or she owed last year or expects to owe this year. See Election Not to Have Income Tax Withheld, later.
>
> If the taxpayer does not provide the payer his or her social security number (in the required manner) or the Internal Revenue Service notifies the payer, before any payment or distribution is made, that the taxpayer gave it an incorrect social security number, tax will be withheld as if the taxpayer is single and claiming no withholding allowances.

Nonperiodic Payments

Payments a taxpayer receives from distributions of pensions or annuities within one year, instead of over a period of more than one year, are nonperiodic payments. Income tax will be withheld at the rate of 10% on any nonperiodic payments a taxpayer receives, unless the payments are part of a "qualified total distribution."

A **qualified total distribution** is payment within one year of the taxpayer's entire interest in a pension, profit-sharing, stock bonus, or qualified annuity plan. Because the withholding rates for nonperiodic payments do not depend on withholding allowances or whether the taxpayer is married or single, Form W–4P is **not** used. However, a taxpayer can use Form W–4P to specify that an additional amount of tax be withheld. A taxpayer can also use Form W–4P to choose to have no tax withheld from nonperiodic payments or to revoke a choice to have no tax withheld.

Election Not to Have Income Tax Withheld

A taxpayer may choose to have no income tax withheld from his or her pension or annuity, whether the payments are periodic or nonperiodic (except for payments to U.S. citizens delivered outside the U.S. or its possessions). Check the box on line 1 of the Form W–4P to make this choice. This choice will remain in effect until the taxpayer decides he or she wants withholding.

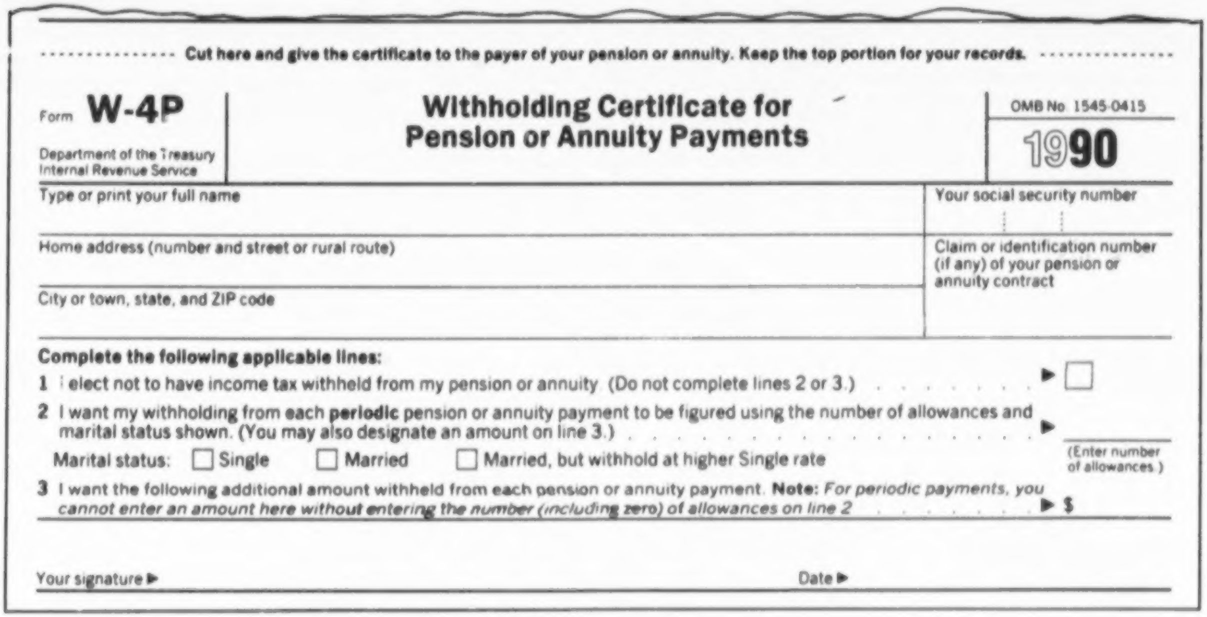
Revoking the Election Not to Have Income Tax Withheld

A taxpayer who wants to revoke his or her previously filed exemption from withholding for periodic payments should file another Form W–4P with the payer. Write "Revoked" by the checkbox on line 1 of the form. In the case of periodic payments, tax will be withheld as if the taxpayer were married and claiming three allowances. However, if the taxpayer wants tax withheld at a different rate, complete line 2 of Form W–4P.

The parts of Form W–4P that the taxpayer and you will use are the:

1. Withholding Certificate for Pension or Annuity Payments.
2. Instructions.
3. Worksheets to figure withholding allowances.
4. Tables for the worksheet.

Exhibit 9



Cut here and give the certificate to the payer of your pension or annuity. Keep the top portion for your records.

Form **W-4P**
Department of the Treasury
Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

OMB No. 1545-0415
1990

Type or print your full name	Your social security number
Home address (number and street or rural route)	Claim or identification number (if any) of your pension or annuity contract
City or town, state, and ZIP code	

Complete the following applicable lines:

1 I elect not to have income tax withheld from my pension or annuity. (Do not complete lines 2 or 3.) . . . . ▶ ☐

2 I want my withholding from each **periodic** pension or annuity payment to be figured using the number of allowances and marital status shown. (You may also designate an amount on line 3.) . . . . ▶ (Enter number of allowances.)

Marital status: ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate

3 I want the following additional amount withheld from each pension or annuity payment. **Note:** *For periodic payments, you cannot enter an amount here without entering the number (including zero) of allowances on line 2* . . . . ▶ $

Your signature ▶ Date ▶

This form requires various items of information, including the number of allowances the taxpayer is claiming. The taxpayer must sign and date the certificate.

The instructions provide basic information to help you and the taxpayer complete the worksheets and the certificate. To determine the number of allowances, the taxpayer must complete the "W–4P Worksheet to Figure Your Withholding Allowances."

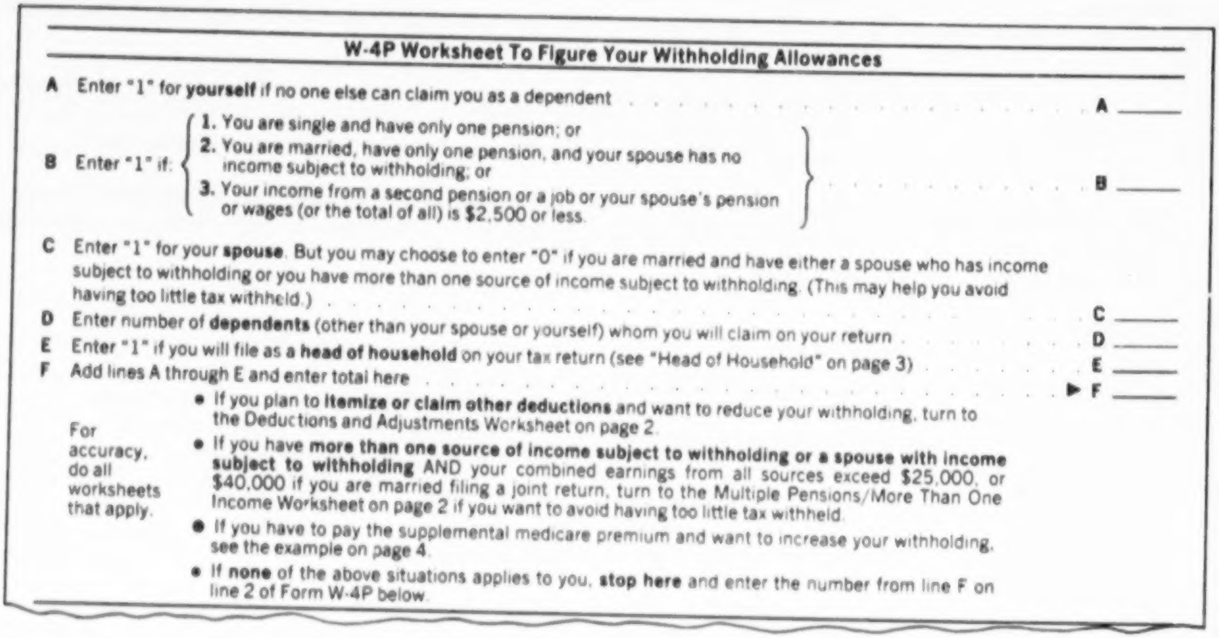
If a taxpayer has more than one source of income or a working spouse, figure the total number of allowances that may be claimed from all sources using worksheets from only one Form W–4P. This total can be divided among all sources of income. Withholding will usually be most accurate when all allowances are claimed on the W–4P certificate filed for the highest source of income and zero allowances are claimed for the others.

Note: The number of allowances a taxpayer claims on Form W–4P does not affect the number of exemptions he or she takes later on his or her tax return.

Withholding Allowances Worksheet

All taxpayers should complete the **"W–4P Worksheet to Figure Your Withholding Allowances"** first.

Exhibit 10



W-4P Worksheet To Figure Your Withholding Allowances

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A ______

B Enter "1" if:
1. You are single and have only one pension; or
2. You are married, have only one pension, and your spouse has no income subject to withholding; or
3. Your income from a second pension or a job or your spouse's pension or wages (or the total of all) is $2,500 or less.
. . . . B ______

C Enter "1" for your **spouse**. But you may choose to enter "0" if you are married and have either a spouse who has income subject to withholding or you have more than one source of income subject to withholding. (This may help you avoid having too little tax withheld.) . . . . C ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your return . . . . . D ______

E Enter "1" if you will file as a **head of household** on your tax return (see "Head of Household" on page 3) . . . . . E ______

F Add lines A through E and enter total here . . . . ▶ F ______

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim other deductions** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you have **more than one source of income subject to withholding or a spouse with income subject to withholding** AND your combined earnings from all sources exceed $25,000, or $40,000 if you are married filing a joint return, turn to the Multiple Pensions/More Than One Income Worksheet on page 2 if you want to avoid having too little tax withheld.
- If you have to pay the supplemental medicare premium and want to increase your withholding, see the example on page 4.
- If **none** of the above situations applies to you, **stop here** and enter the number from line F on line 2 of Form W-4P below.

The "W–4P Worksheet to Figure Your Withholding Allowances" takes four factors into account:

1. One allowance corresponds to each exemption (personal and dependency) that the taxpayer may claim on a tax return. Lines A, C, and D are for this purpose.

2. If the taxpayer is eligible to file as a head of household, he or she may claim an additional allowance on line E.

3. A special allowance applies to certain taxpayers. A taxpayer may take one additional allowance on line B if he or she is:

   Single and has only one pension; or

   Married, has only one pension, and his or her spouse has no income subject to withholding; or

   His or her income from a second pension or a job or his or her spouse's pension or wages (or the total of all) is $2,500 or less.

Example

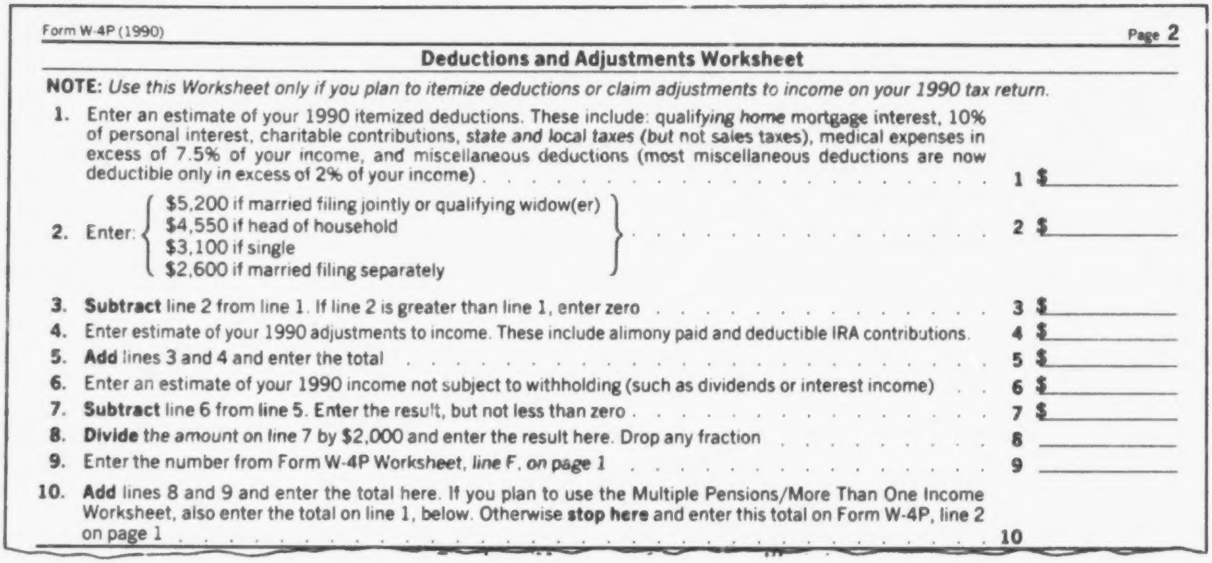
Denise Mason is single. She receives income from a pension and also from a job. On her job, she expects to make $2,100. Denise can claim the special allowance.

If certain conditions apply, the taxpayer should use one or both of the other Form W–4P worksheets. Read the information immediately following line F of the "**W–4P Worksheet To Figure Your Withholding Allowances.**"

Deductions and Adjustments Worksheet

Taxpayers who plan to itemize deductions or claim adjustments to income should complete this worksheet. The worksheet allows additional allowances for these items.

Exhibit 11



Form W-4P (1990) Page 2

Deductions and Adjustments Worksheet

NOTE: *Use this Worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1. Enter an estimate of your 1990 itemized deductions. These include: qualifying *home* mortgage interest, 10% of personal interest, charitable contributions, *state and local taxes (but* not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . . . 1 $______
2. Enter: $5,200 if married filing jointly or qualifying widow(er); $4,550 if head of household; $3,100 if single; $2,600 if married filing separately . . . . . 2 $______
3. **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . . . 3 $______
4. Enter estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions. 4 $______
5. **Add** lines 3 and 4 and enter the total . . . . . 5 $______
6. Enter an estimate of your 1990 income not subject to withholding (such as dividends or interest income) . . 6 $______
7. **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . . . 7 $______
8. **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . . . 8 ______
9. Enter the number from Form W-4P Worksheet, *line F, on page 1* . . . . . 9 ______
10. **Add** lines 8 and 9 and enter the total here. If you plan to use the Multiple Pensions/More Than One Income Worksheet, also enter the total on line 1, below. Otherwise **stop here** and enter this total on Form W-4P, line 2 on page 1 10

Lines 1–8 compute additional allowances based on deductions and adjustments, less income not subject to withholding.

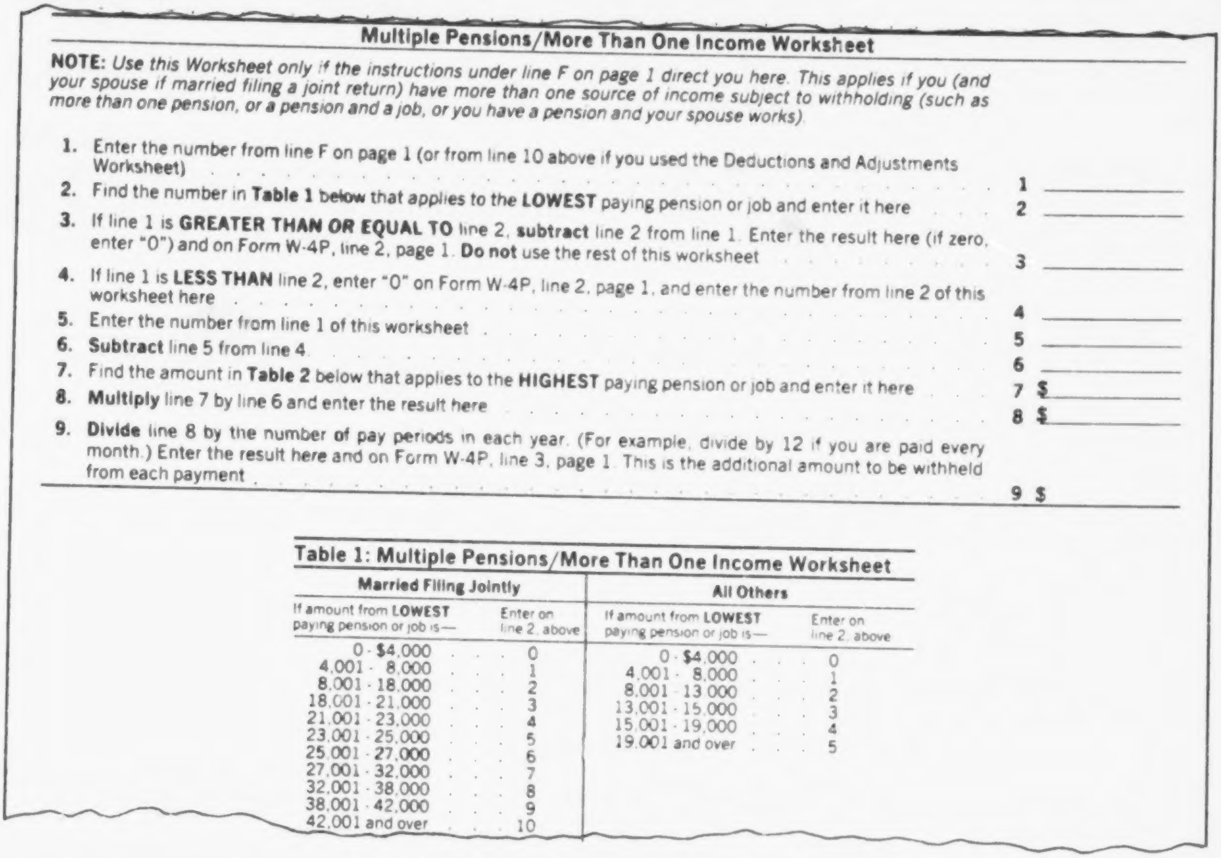
Line 9 brings forward the allowances from the "W–4P Worksheet To Figure Your Withholding Allowances."

Line 10 shows the total allowances, **unless** the taxpayer uses the "Multiple Pensions/More Than One Income Worksheet."

Multiple Pensions/More Than One Income Worksheet

The taxpayer may use this worksheet if he or she (and his or her spouse if married filing a joint return) has more than one source of income subject to withholding (such as more than one pension, or a pension and a job, or has a pension and his or her spouse works). The taxpayer should use this worksheet only if the instructions after line F of the "W–4P Worksheet To Figure Your Withholding Allowances" apply. See Exhibit 10.

Exhibit 12



Multiple Pensions/More Than One Income Worksheet

NOTE: *Use this Worksheet only if the instructions under line F on page 1 direct you here. This applies if you (and your spouse if married filing a joint return) have more than one source of income subject to withholding (such as more than one pension, or a pension and a job, or you have a pension and your spouse works).*

1. Enter the number from line F on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) . . . . . . 1 ______
2. Find the number in **Table 1** below that applies to the **LOWEST** paying pension or job and enter it here . . . 2 ______
3. If line 1 is **GREATER THAN OR EQUAL TO** line 2, **subtract** line 2 from line 1. Enter the result here (if zero, enter "0") and on Form W-4P, line 2, page 1. **Do not** use the rest of this worksheet . . . 3 ______
4. If line 1 is **LESS THAN** line 2, enter "0" on Form W-4P, line 2, page 1, and enter the number from line 2 of this worksheet here . . . . 4 ______
5. Enter the number from line 1 of this worksheet . . . 5 ______
6. **Subtract** line 5 from line 4 . . . 6 ______
7. Find the amount in **Table 2** below that applies to the **HIGHEST** paying pension or job and enter it here . . . 7 $______
8. **Multiply** line 7 by line 6 and enter the result here . . . 8 $______
9. **Divide** line 8 by the number of pay periods in each year. (For example, divide by 12 if you are paid every month.) Enter the result here and on Form W-4P, line 3, page 1. This is the additional amount to be withheld from each payment . . . . . . 9 $

Table 1: Multiple Pensions/More Than One Income Worksheet

Married Filing Jointly		All Others	
If amount from **LOWEST** paying pension or job is—	Enter on line 2, above	If amount from **LOWEST** paying pension or job is—	Enter on line 2, above
0 - $4,000	0	0 - $4,000	0
4,001 - 8,000	1	4,001 - 8,000	1
8,001 - 18,000	2	8,001 - 13 000	2
18,001 - 21,000	3	13,001 - 15,000	3
21,001 - 23,000	4	15,001 - 19,000	4
23,001 - 25,000	5	19,001 and over	5
25,001 - 27,000	6		
27,001 - 32,000	7		
32,001 - 38,000	8		
38,001 - 42,000	9		
42,001 and over	10		

Line 1 brings forward allowances from line F of the "W–4P Worksheet To Figure Your Withholding Allowances" or line 10 of the "Deductions and Adjustments Worksheet."

Lines 2–3 **reduce** the number of allowances.

Lines 4–9 figure an additional dollar amount to be deducted when necessary.

If the taxpayer has a large amount of income from other sources not subject to withholding (such as interest, dividends, taxable social security, etc.), you should recommend the taxpayer to make estimated tax payments using Form 1040–ES. Estimated tax is discussed in Lesson 7 of this module.

Completing Form W–4P

After doing the worksheet(s), you can complete the taxpayer's Form W–4P. Fill out all the spaces corresponding to the name, address, social security number, and claim or identification number (if any) of the taxpayer's pension or annuity contract.

Line 1. Complete this line if the taxpayer elects not to have income tax withheld from his or her pension or annuity. See, *Election Not to Have Income Tax Withheld,* earlier. If a taxpayer wants to revoke his or her previously filed exemption from withholding for periodical payments, see *Revoking the Election Not to Have Tax Withheld*, earlier.

Line 2. Enter the number of allowances the taxpayer wants to use to figure the amount of tax to be withheld from each periodic pension or annuity payment. Check the appropriate marital status box.

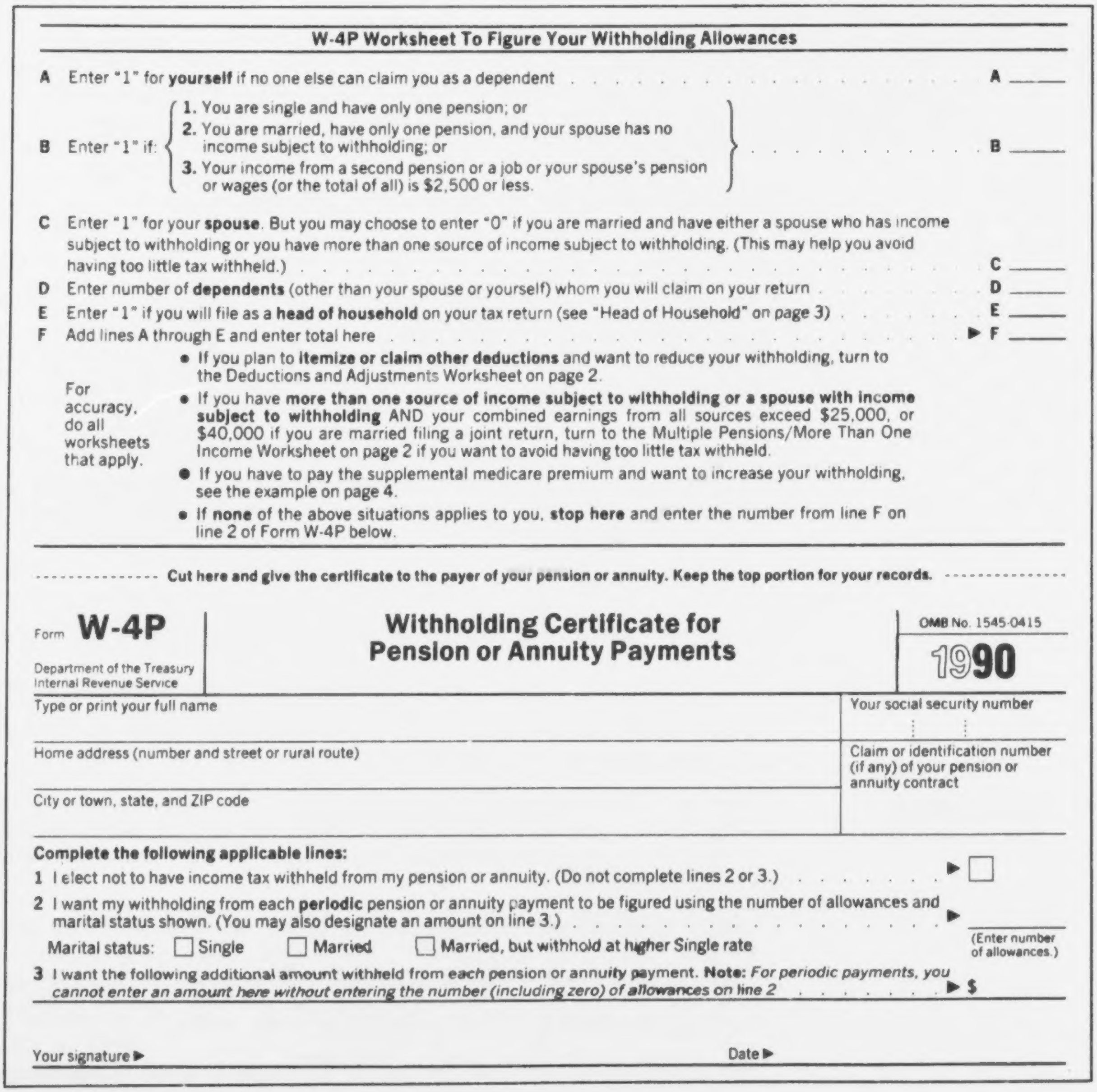
Line 3. If the taxpayer wants to have an additional amount of tax wihheld from his or her pension or annuity, enter the amount here.

Do not forget to ask the taxpayer to sign and date Form W–4P before filing it with the payer of his or her pension or annuity.

Exercise 3

Ron and Sandy Wilson are married and filing jointly. They do not have dependents. Ron receives $24,000 a year from a fully taxable pension. They have no wage income and do not expect to have itemize deductions, have any other income, claim any adjustments to income or credits. Complete Form W–4P for the Wilsons (Exhibit 13).

Exhibit 13



W-4P Worksheet To Figure Your Withholding Allowances

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A ______

B Enter "1" if:
1. You are single and have only one pension; or
2. You are married, have only one pension, and your spouse has no income subject to withholding; or
3. Your income from a second pension or a job or your spouse's pension or wages (or the total of all) is $2,500 or less.

. . . . B ______

C Enter "1" for your **spouse**. But you may choose to enter "0" if you are married and have either a spouse who has income subject to withholding or you have more than one source of income subject to withholding. (This may help you avoid having too little tax withheld.) . . . . C ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your return . . . . D ______

E Enter "1" if you will file as a **head of household** on your tax return (see "Head of Household" on page 3) . . . . E ______

F Add lines A through E and enter total here . . . . ▶ F ______

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim other deductions** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you have **more than one source of income subject to withholding or a spouse with income subject to withholding** AND your combined earnings from all sources exceed $25,000, or $40,000 if you are married filing a joint return, turn to the Multiple Pensions/More Than One Income Worksheet on page 2 if you want to avoid having too little tax withheld.
- If you have to pay the supplemental medicare premium and want to increase your withholding, see the example on page 4.
- If **none** of the above situations applies to you, **stop here** and enter the number from line F on line 2 of Form W-4P below.

Cut here and give the certificate to the payer of your pension or annuity. Keep the top portion for your records.

Form **W-4P**
Department of the Treasury
Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

OMB No. 1545-0415

1990

Type or print your full name	Your social security number
Home address (number and street or rural route)	Claim or identification number (if any) of your pension or annuity contract
City or town, state, and ZIP code	

Complete the following applicable lines:

1 I elect not to have income tax withheld from my pension or annuity. (Do not complete lines 2 or 3.) . . . . ▶ ☐

2 I want my withholding from each **periodic** pension or annuity payment to be figured using the number of allowances and marital status shown. (You may also designate an amount on line 3.) . . . . ▶ ______ (Enter number of allowances.)

Marital status: ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate

3 I want the following additional amount withheld from each pension or annuity payment. **Note:** *For periodic payments, you cannot enter an amount here without entering the number (including zero) of allowances on line 2* . . . . ▶ $

Your signature ▶ Date ▶

Exercise 4

Sam Peterson is single. Sam receives $19,000 a year from a fully taxable pension. He expects his itemized deductions to be $3,500. In addition to his income from the pension, he expects $2,300 in interest income. He does not expect to claim adjustments to income. Complete the worksheets for Sam's Form W–4P (Exhibits 14 and 15).

Exhibit 14

W-4P Worksheet To Figure Your Withholding Allowances

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A ______

B Enter "1" if:
1. You are single and have only one pension; or
2. You are married, have only one pension, and your spouse has no income subject to withholding; or
3. Your income from a second pension or a job or your spouse's pension or wages (or the total of all) is $2,500 or less.

B ______

C Enter "1" for your **spouse**. But you may choose to enter "0" if you are married and have either a spouse who has income subject to withholding or you have more than one source of income subject to withholding. (This may help you avoid having too little tax withheld.) . . . . C ______

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your return . . . . . D ______

E Enter "1" if you will file as a **head of household** on your tax return (see "Head of Household" on page 3) . . . . E ______

F Add lines A through E and enter total here . . . . ▶ F ______

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim other deductions** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you have **more than one source of income subject to withholding or a spouse with income subject to withholding** AND your combined earnings from all sources exceed $25,000, or $40,000 if you are married filing a joint return, turn to the Multiple Pensions/More Than One Income Worksheet on page 2 if you want to avoid having too little tax withheld.
- If you have to pay the supplemental medicare premium and want to increase your withholding, see the example on page 4.
- If **none** of the above situations applies to you, **stop here** and enter the number from line F on line 2 of Form W-4P below.

--------------- **Cut here and give the certificate to the payer of your pension or annuity. Keep the top portion for your records.** ---------------

Form **W-4P**

Department of the Treasury
Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

OMB No. 1545-0415

1990

Type or print your full name	Your social security number
Home address (number and street or rural route)	Claim or identification number (if any) of your pension or annuity contract
City or town, state, and ZIP code	

Complete the following applicable lines:

1 I elect not to have income tax withheld from my pension or annuity. (Do not complete lines 2 or 3.) . . . . . . ▶ ☐

2 I want my withholding from each **periodic** pension or annuity payment to be figured using the number of allowances and marital status shown. (You may also designate an *amount* on line 3.) . . . . . . ▶ ______ (Enter number of allowances.)

Marital status: ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate

3 I want the following additional amount withheld from each pension or annuity payment. **Note:** *For periodic payments, you cannot enter an amount here without entering the number (including zero) of allowances on line 2* . . . . . . ▶ $

Your signature ▶ Date ▶

Exhibit 15

Form W-4P (1990) Page 2

Deductions and Adjustments Worksheet

NOTE: *Use this Worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1. Enter an estimate of your 1990 itemized deductions. These include: qualifying home mortgage interest, 10% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . . 1 $________
2. Enter: { $5,200 if married filing jointly or qualifying widow(er) / $4,550 if head of household / $3,100 if single / $2,600 if married filing separately } . . . . 2 $________
3. **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . . 3 $________
4. Enter estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions. 4 $________
5. **Add** lines 3 and 4 and enter the total . . . . 5 $________
6. Enter an *estimate of your 1990 income not subject to withholding* (such as dividends or interest income) . . 6 $________
7. **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . . 7 $________
8. **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . . 8 ________
9. Enter the number from Form W-4P Worksheet, line F, on page 1 . . . . 9 ________
10. **Add** lines 8 and 9 and enter the total here. If you plan to use the Multiple Pensions/More Than One Income Worksheet, also enter the total on line 1, below. Otherwise **stop here** and enter this total on Form W-4P, line 2 on page 1 10

Multiple Pensions/More Than One Income Worksheet

NOTE: *Use this Worksheet only if the instructions under line F on page 1 direct you here. This applies if you (and your spouse if married filing a joint return) have more than one source of income subject to withholding (such as more than one pension, or a pension and a job, or you have a pension and your spouse works).*

1. Enter the number from line F on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) . . . . 1 ________
2. Find the number in **Table 1** below that applies to the **LOWEST** paying pension or job and enter it here . . . 2 ________
3. If line 1 is **GREATER THAN OR EQUAL TO** line 2, **subtract** line 2 from line 1. Enter the result here (if zero, enter "0") and on Form W-4P, line 2, page 1. **Do not** use the rest of this worksheet . . . . 3 ________
4. If line 1 is **LESS THAN** line 2, enter "0" on Form W-4P, line 2, page 1, and enter the number from line 2 of this worksheet here . . . . 4 ________
5. Enter the number from line 1 of this worksheet . . . . 5 ________
6. **Subtract** line 5 from line 4. . . . . 6 ________
7. Find the amount in **Table 2** below that applies to the **HIGHEST** paying pension or job and enter it here . . . 7 $________
8. **Multiply** line 7 by line 6 and enter the result here . . . . 8 $________
9. **Divide** line 8 by the number of pay periods in each year. (For example, divide by 12 if you are paid every month.) Enter the result here and on Form W-4P, line 3, page 1. This is the additional amount to be withheld from each payment . . . . 9 $

PROOF COPY

Table 1: Multiple Pensions/More Than One Income Worksheet

Married Filing Jointly		All Others	
If amount from **LOWEST** paying pension or job is—	Enter on line 2, above	If amount from **LOWEST** paying pension or job is—	Enter on line 2, above
0 - $4,000	0	0 - $4,000	0
4,001 - 8,000	1	4,001 - 8,000	1
8,001 - 18,000	2	8,001 - 13,000	2
18,001 - 21,000	3	13,001 - 15,000	3
21,001 - 23,000	4	15,001 - 19,000	4
23,001 - 25,000	5	19,001 and over	5
25,001 - 27,000	6		
27,001 - 32,000	7		
32,001 - 38,000	8		
38,001 - 42,000	9		
42,001 and over	10		

Table 2: Multiple Pensions/More Than One Income Worksheet

Married Filing Jointly		All Others	
If amount from **HIGHEST** paying pension or job is—	Enter on line 7, above	If amount from **HIGHEST** paying pension or job is—	Enter on line 7, above
0 - $40,000	$300	0 - $23,000	$300
40,001 - 84,000	560	23,001 - 50,000	560
84,001 and over	660	50,001 and over	660

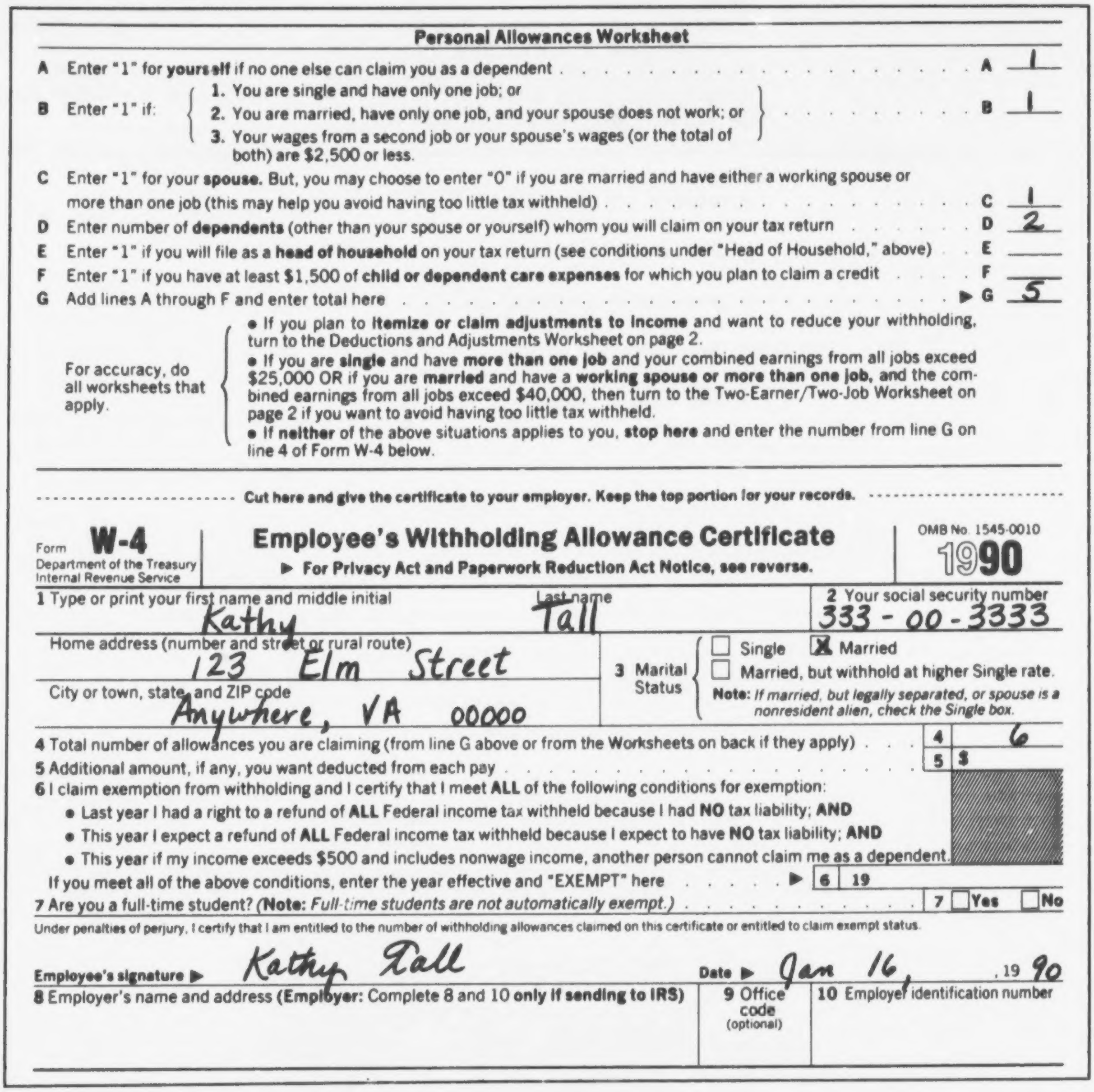
Summary

Employees must file a Form W–4 at the start of any new job and should submit a revised Form W–4 whenever their anticipated deductions change. Those who want to ensure that the correct amount is being withheld should use Publication 919 after they receive their first paycheck for the year. Recipients of income from annuity, pension, and certain other deferred compensation plans should use Form W–4P to notify payers whether income tax is to be withheld and on what basis.

Answers to Exercises

1. See filled-in Exhibits 5 and 6.
2. See filled-in Exhibits 7 and 8.
3. See filled-in Exhibit 13.
4. See filled-in Exhibits 14 and 15.

Exhibit 5, filled-in



Personal Allowances Worksheet

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A 1

B Enter "1" if:
1. You are single and have only one job; or
2. You are married, have only one job, and your spouse does not work; or
3. Your wages from a second job or your spouse's wages (or the total of both) are $2,500 or less.

. . . . B 1

C Enter "1" for your **spouse.** But, you may choose to enter "0" if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . . C 1

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . . . . D 2

E Enter "1" if you will file as a **head of household** on your tax return (see conditions under "Head of Household," above) . . E ____

F Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit . . . . F ____

G Add lines A through F and enter total here . . . . ▶ G 5

For accuracy, do all worksheets that apply.
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $25,000 OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $40,000, then turn to the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies to you, **stop here** and enter the number from line G on line 4 of Form W-4 below.

Cut here and give the certificate to your employer. Keep the top portion for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010

1990

1 Type or print your first name and middle initial: Kathy

Last name: Tall

2 Your social security number: 333 - 00 - 3333

Home address (number and street or rural route): 123 Elm Street

City or town, state, and ZIP code: Anywhere, VA 00000

3 Marital Status: ☐ Single ☒ Married ☐ Married, but withhold at higher Single rate.

Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*

4 Total number of allowances you are claiming (from line G above or from the Worksheets on back if they apply) . . . 4 6

5 Additional amount, if any, you want deducted from each pay . . . . 5 $

6 I claim exemption from withholding and I certify that I meet **ALL** of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability; **AND**
- This year if my income exceeds $500 and includes nonwage income, another person cannot claim me as a dependent.

If you meet all of the above conditions, enter the year effective and "EXEMPT" here . . . . . ▶ 6 19

7 Are you a full-time student? (**Note:** *Full-time students are not automatically exempt.*) . . . . . . 7 ☐ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶ Kathy Tall **Date** ▶ Jan 16, 19 90

8 Employer's name and address (**Employer:** Complete 8 and 10 **only if sending to IRS**)

9 Office code (optional)

10 Employer identification number

Exhibit 6, filled-in

Form W-4 (1990) Page 2

Deductions and Adjustments Worksheet

Note: *Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1 Enter an estimate of your 1990 itemized deductions. These include: qualifying home mortgage interest, 10% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . 1 $ 8,000

2 Enter: $5,200 if married filing jointly or qualifying widow(er); $4,550 if head of household; $3,100 if single; $2,600 if married filing separately . . . 2 $ 5,200

3 **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . 3 $ 2,800

4 Enter an estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions . . 4 $ 0

5 **Add** lines 3 and 4 and enter the total . . . 5 $ 2,800

6 Enter an estimate of your 1990 nonwage income (such as dividends or interest income) . . . 6 $ 0

7 **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . 7 $ 2,800

8 **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . 8 1

9 Enter the number from Personal Allowances Worksheet, line G, on page 1 . . . 9 5

10 **Add** lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise, **stop here** and enter this total on Form W-4, line 4 on page 1 . . . 10 6

Two-Earner/Two-Job Worksheet

Note: *Use this worksheet only if the instructions at line G on page 1 direct you here.*

1 Enter the number from line G on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) . 1 ______

2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here . . . 2 ______

3 If line 1 is **GREATER THAN OR EQUAL TO** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "0") and on Form W-4, line 4, on page 1. **DO NOT** use the rest of this worksheet. . . . 3 ______

Note: *If line 1 is* ***LESS THAN*** *line 2, enter "0" on Form W-4, line 4, on page 1. Complete lines 4–9 to calculate the additional dollar withholding necessary to avoid a year-end tax bill.*

4 Enter the number from line 2 of this worksheet . . . 4 ______

5 Enter the number from line 1 of this worksheet . . . 5 ______

6 **Subtract** line 5 from line 4 . . . 6 ______

7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . 7 $ ______

8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding amount needed 8 $ ______

9 Divide line 8 by the number of pay periods each year. (For example, divide by 26 if you are paid every other week.) Enter the result here and on Form W-4, line 5, page 1. This is the additional amount to be withheld from each paycheck . . . 9 $

PROOF COPY

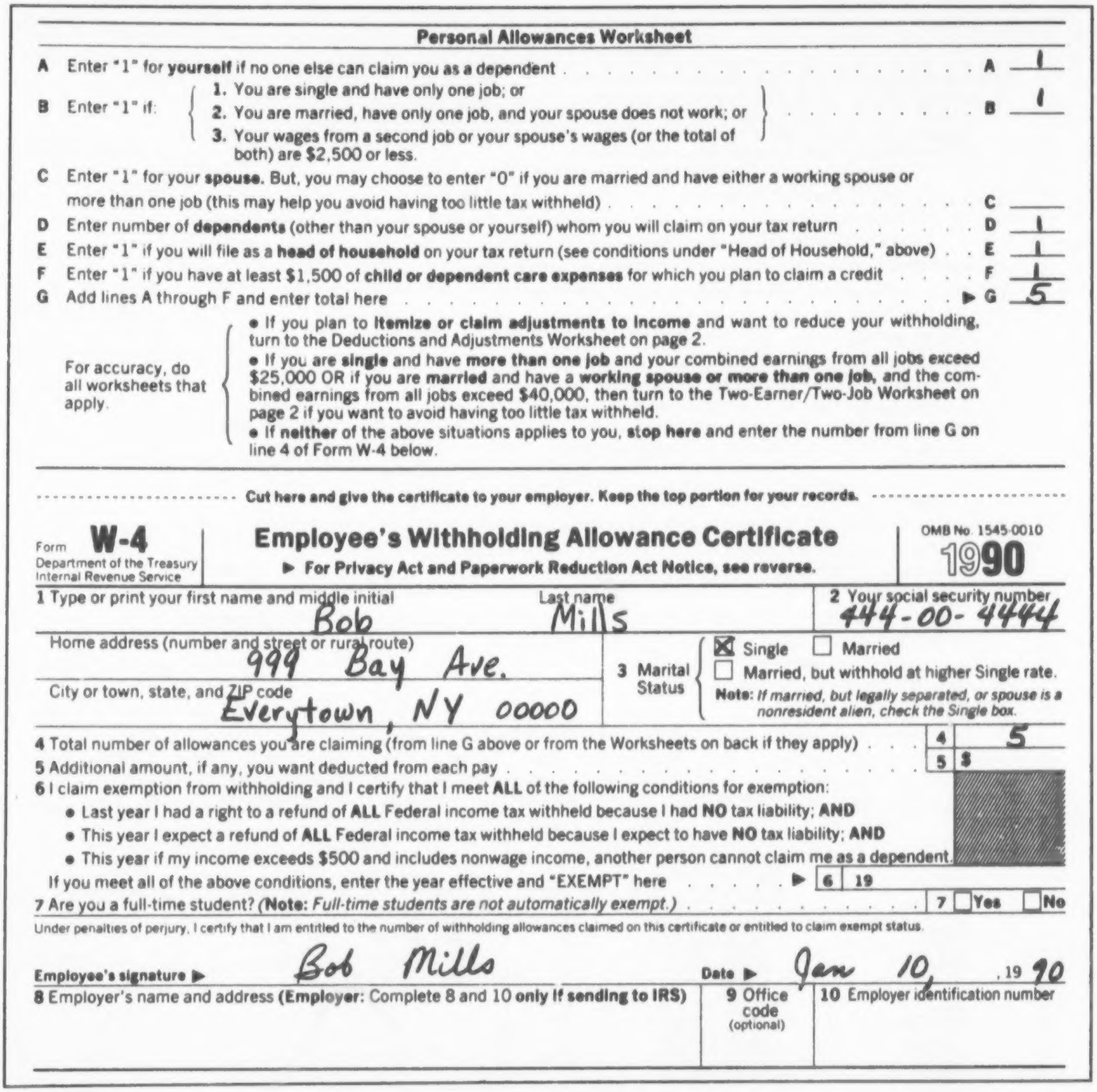
Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from **LOWEST** paying job are—	Enter on line 2 above	If wages from **LOWEST** paying job are—	Enter on line 2 above
0 - $4,000	0	0 - $4,000	0
4,001 - 8,000	1	4,001 - 8,000	1
8,001 - 18,000	2	8,001 - 13,000	2
18,001 - 21,000	3	13,001 - 15,000	3
21,001 - 23,000	4	15,001 - 19,000	4
23,001 - 25,000	5	19,001 and over	5
25,001 - 27,000	6		
27,001 - 32,000	7		
32,001 - 38,000	8		
38,001 - 42,000	9		
42,001 and over	10		

Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from **HIGHEST** paying job are—	Enter on line 7 above	If wages from **HIGHEST** paying job are—	Enter on line 7 above
0 - $40,000	$300	0 - $23,000	$300
40,001 - 84,000	560	23,001 - 50,000	560
84,001 and over	660	50,001 and over	660

Exhibit 7, filled-in



Personal Allowances Worksheet

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . A 1

B Enter "1" if:
1. You are single and have only one job; or
2. You are married, have only one job, and your spouse does not work; or
3. Your wages from a second job or your spouse's wages (or the total of both) are $2,500 or less.

. . . B 1

C Enter "1" for your **spouse.** But, you may choose to enter "0" if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) . . . C ____

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return . . . D 1

E Enter "1" if you will file as a **head of household** on your tax return (see conditions under "Head of Household," above) . . E 1

F Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit . . . . F 1

G Add lines A through F and enter total here . . . ▶ G 5

For accuracy, do all worksheets that apply.
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $25,000 OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $40,000, then turn to the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies to you, **stop here** and enter the number from line G on line 4 of Form W-4 below.

Cut here and give the certificate to your employer. Keep the top portion for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010
1990

1 Type or print your first name and middle initial: Bob
Last name: Mills
2 Your social security number: 444-00-4444

Home address (number and street or rural route): 999 Bay Ave.
City or town, state, and ZIP code: Everytown, NY 00000

3 Marital Status: ☒ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*

4 Total number of allowances you are claiming (from line G above or from the Worksheets on back if they apply) . . . 4 5

5 Additional amount, if any, you want deducted from each pay . . . 5 $

6 I claim exemption from withholding and I certify that I meet **ALL** of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability; **AND**
- This year if my income exceeds $500 and includes nonwage income, another person cannot claim me as a dependent.

If you meet all of the above conditions, enter the year effective and "EXEMPT" here . . . ▶ 6 19

7 Are you a full-time student? (**Note:** *Full-time students are not automatically exempt.*) . . . 7 ☐ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶ Bob Mills **Date ▶** Jan 10, 19 90

8 Employer's name and address (**Employer:** Complete 8 and 10 **only if sending to IRS**)
9 Office code (optional)
10 Employer identification number

Exhibit 8, filled-in

Form W-4 (1990) Page 2

Deductions and Adjustments Worksheet

Note: *Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1 Enter an estimate of your 1990 itemized deductions. These include: qualifying home mortgage interest, 10% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . 1 $ 5,000

2 Enter: { $5,200 if married filing jointly or qualifying widow(er)
$4,550 if head of household
$3,100 if single
$2,600 if married filing separately } . . . 2 $ 4,550

3 **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . 3 $ 450

4 Enter an estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions . 4 $ 0

5 **Add** lines 3 and 4 and enter the total . . . 5 $ 450

6 Enter an estimate of your 1990 nonwage income (such as dividends or interest income) . . . 6 $ 1,400

7 **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . 7 $ 0

8 **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . 8 0

9 Enter the number from Personal Allowances Worksheet, line G, on page 1 . . . 9 5

10 **Add** lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise, **stop here** and enter this total on Form W-4, line 4 on page 1 . . . 10 5

Two-Earner/Two-Job Worksheet

Note: *Use this worksheet only if the instructions at line G on page 1 direct you here.*

1 Enter the number from line G on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) . 1 ______

2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here . . . 2 ______

3 If line 1 is **GREATER THAN OR EQUAL TO** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "0") and on Form W-4, line 4, on page 1. **DO NOT** use the rest of this worksheet . . . 3 ______

Note: *If line 1 is **LESS THAN** line 2, enter "0" on Form W-4, line 4, on page 1. Complete lines 4–9 to calculate the additional dollar withholding necessary to avoid a year-end tax bill.*

4 Enter the number from line 2 of this worksheet . . . 4 ______

5 Enter the number from line 1 of this worksheet . . . 5 ______

6 **Subtract** line 5 from line 4 . . . 6 ______

7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . 7 $ ______

8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding amount needed 8 $ ______

9 Divide line 8 by the number of pay periods each year. (For example, divide by 26 if you are paid every other week.) Enter the result here and on Form W-4, line 5, page 1. This is the additional amount to be withheld from each paycheck . . . 9 $

PROOF COPY

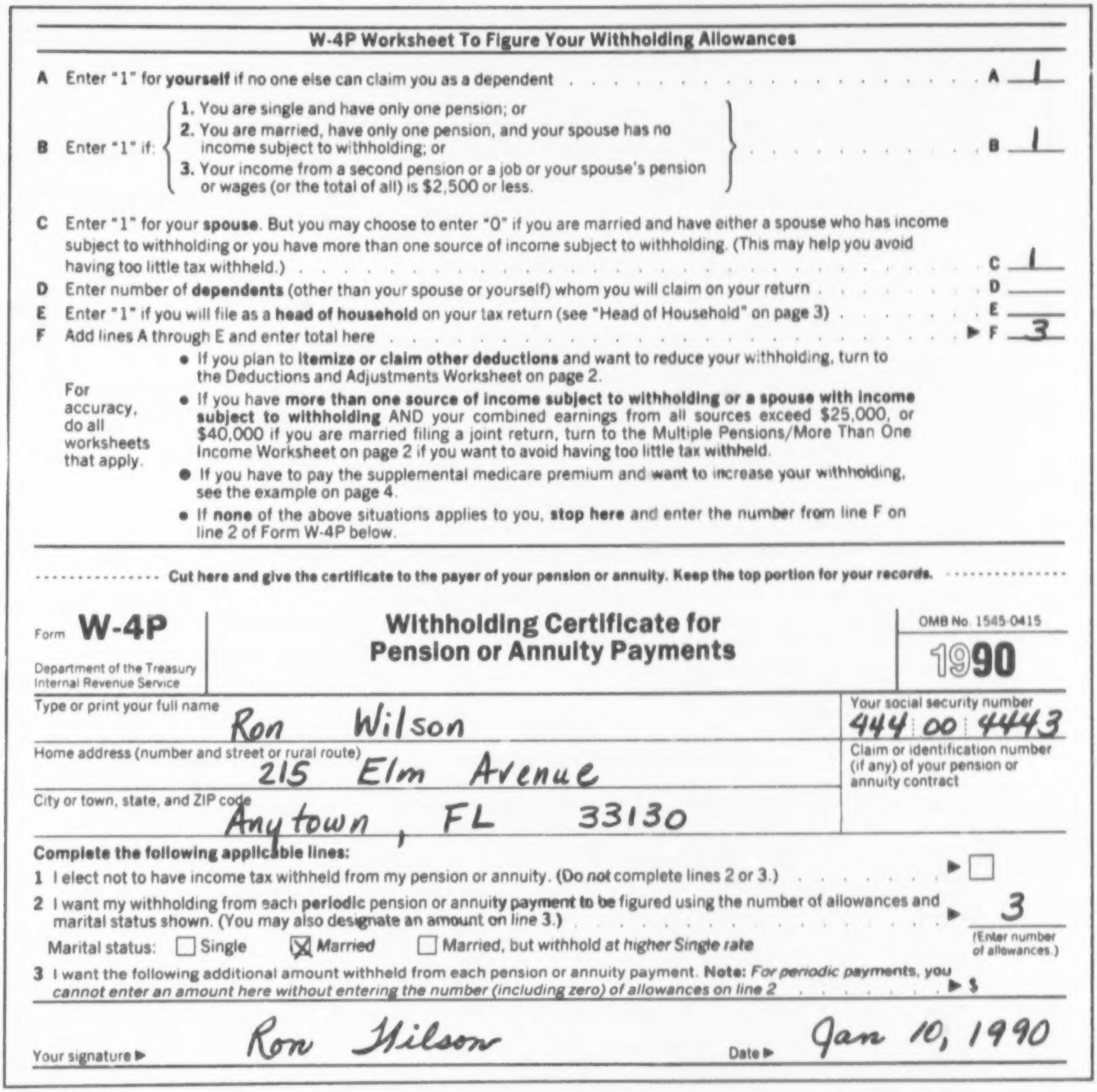
Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from LOWEST paying job are—	Enter on line 2 above	If wages from LOWEST paying job are—	Enter on line 2 above
0 - $4,000	0	0 - $4,000	0
4,001 - 8,000	1	4,001 - 8,000	1
8,001 - 18,000	2	8,001 - 13,000	2
18,001 - 21,000	3	13,001 - 15,000	3
21,001 - 23,000	4	15,001 - 19,000	4
23,001 - 25,000	5	19,001 and over	5
25,001 - 27,000	6		
27,001 - 32,000	7		
32,001 - 38,000	8		
38,001 - 42,000	9		
42,001 and over	10		

Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from HIGHEST paying job are—	Enter on line 7 above	If wages from HIGHEST paying job are—	Enter on line 7 above
0 - $40,000	$300	0 - $23,000	$300
40,001 - 84,000	560	23,001 - 50,000	560
84,001 and over	660	50,001 and over	660

Exhibit 13, filled-in



W-4P Worksheet To Figure Your Withholding Allowances

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . . A 1

B Enter "1" if:
1. You are single and have only one pension; or
2. You are married, have only one pension, and your spouse has no income subject to withholding; or
3. Your income from a second pension or a job or your spouse's pension or wages (or the total of all) is $2,500 or less.

. . . . . B 1

C Enter "1" for your **spouse**. But you may choose to enter "0" if you are married and have either a spouse who has income subject to withholding or you have more than one source of income subject to withholding. (This may help you avoid having too little tax withheld.) . . . . . C 1

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your return . . . D ____

E Enter "1" if you will file as a **head of household** on your tax return (see "Head of Household" on page 3) . . . E ____

F Add lines A through E and enter total here . . . . . ▶ F 3

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim other deductions** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you have **more than one source of income subject to withholding or a spouse with income subject to withholding** AND your combined earnings from all sources exceed $25,000, or $40,000 if you are married filing a joint return, turn to the Multiple Pensions/More Than One Income Worksheet on page 2 if you want to avoid having too little tax withheld.
- If you have to pay the supplemental medicare premium and want to increase your withholding, see the example on page 4.
- If **none** of the above situations applies to you, **stop here** and enter the number from line F on line 2 of Form W-4P below.

Cut here and give the certificate to the payer of your pension or annuity. Keep the top portion for your records.

Form **W-4P**
Department of the Treasury
Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

OMB No. 1545-0415
1990

Type or print your full name: Ron Wilson

Your social security number: 444 00 4443

Home address (number and street or rural route): 215 Elm Avenue

Claim or identification number (if any) of your pension or annuity contract:

City or town, state, and ZIP code: Anytown, FL 33130

Complete the following applicable lines:

1 I elect not to have income tax withheld from my pension or annuity. (Do *not* complete lines 2 or 3.) . . . . . ▶ ☐

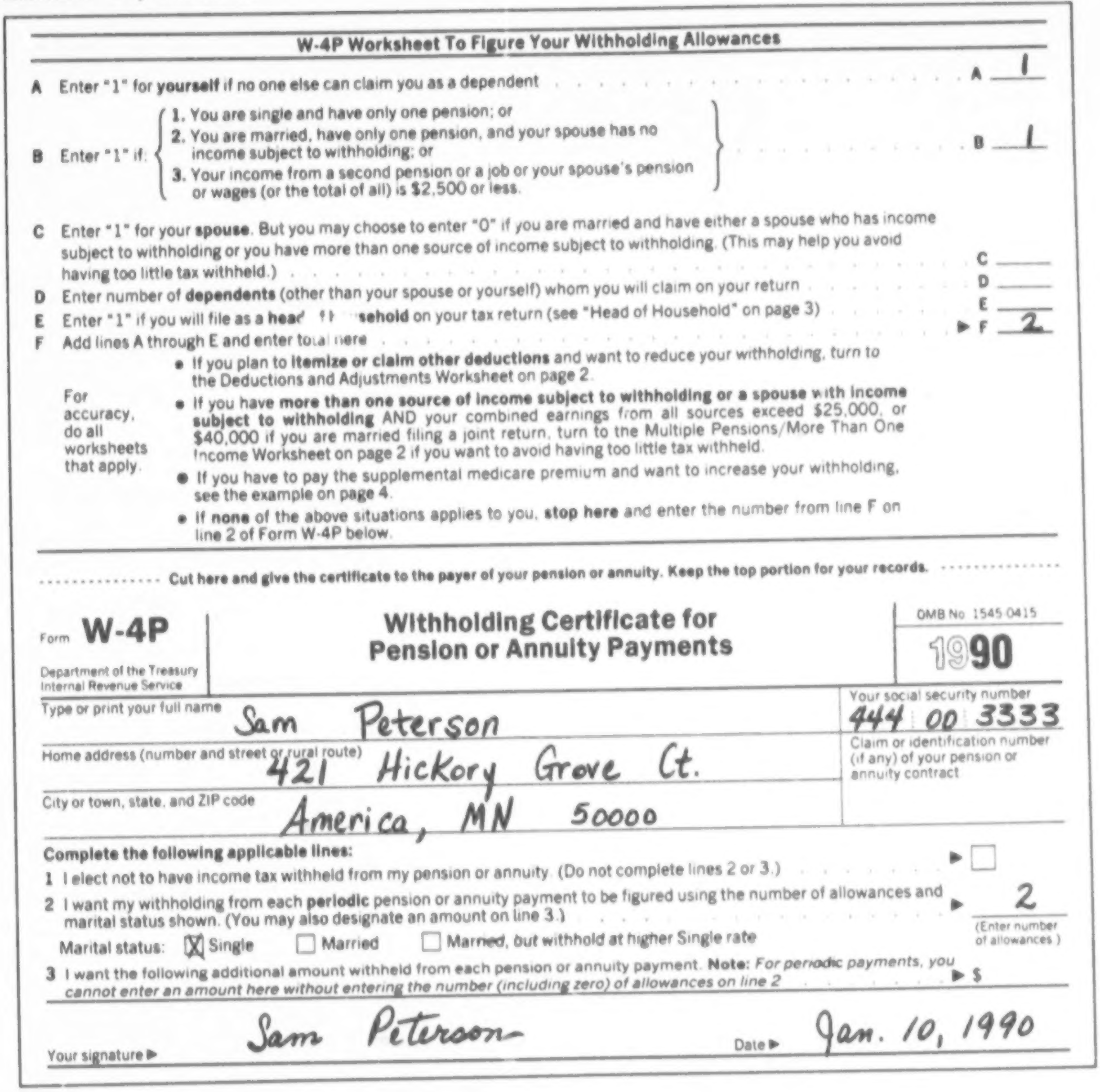
2 I want my withholding from each **periodic** pension or annuity payment to be figured using the number of allowances and marital status shown. (You may also designate an amount on line 3.) . . . ▶ 3 (Enter number of allowances.)

Marital status: ☐ Single ☒ Married ☐ Married, but withhold at higher Single rate

3 I want the following additional amount withheld from each pension or annuity payment. **Note:** *For periodic payments, you cannot enter an amount here without entering the number (including zero) of allowances on line 2* . . . . . ▶ $

Your signature ▶ Ron Wilson Date ▶ Jan 10, 1990

Exhibit 14, filled-in



W-4P Worksheet To Figure Your Withholding Allowances

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . A 1

B Enter "1" if: 1. You are single and have only one pension; or 2. You are married, have only one pension, and your spouse has no income subject to withholding; or 3. Your income from a second pension or a job or your spouse's pension or wages (or the total of all) is $2,500 or less. . . . . B 1

C Enter "1" for your **spouse**. But you may choose to enter "0" if you are married and have either a spouse who has income subject to withholding or you have more than one source of income subject to withholding. (This may help you avoid having too little tax withheld.) . . . . C ____

D Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your return . . . D ____

E Enter "1" if you will file as a **head of household** on your tax return (see "Head of Household" on page 3) . . . E ____

F Add lines A through E and enter total here . . . . ▶ F 2

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim other deductions** and want to reduce your withholding, turn to the Deductions and Adjustments Worksheet on page 2.
- If you have **more than one source of income subject to withholding or a spouse with income subject to withholding** AND your combined earnings from all sources exceed $25,000, or $40,000 if you are married filing a joint return, turn to the Multiple Pensions/More Than One Income Worksheet on page 2 if you want to avoid having too little tax withheld.
- If you have to pay the supplemental medicare premium and want to increase your withholding, see the example on page 4.
- If **none** of the above situations applies to you, **stop here** and enter the number from line F on line 2 of Form W-4P below.

. . . . **Cut here and give the certificate to the payer of your pension or annuity. Keep the top portion for your records.** . . . .

Form **W-4P**
Department of the Treasury
Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

OMB No. 1545-0415
1990

Type or print your full name: Sam Peterson

Your social security number: 444 00 3333

Home address (number and street or rural route): 421 Hickory Grove Ct.

Claim or identification number (if any) of your pension or annuity contract:

City or town, state, and ZIP code: America, MN 50000

Complete the following applicable lines:

1 I elect not to have income tax withheld from my pension or annuity. (Do not complete lines 2 or 3.) . . . . . . ▶ ☐

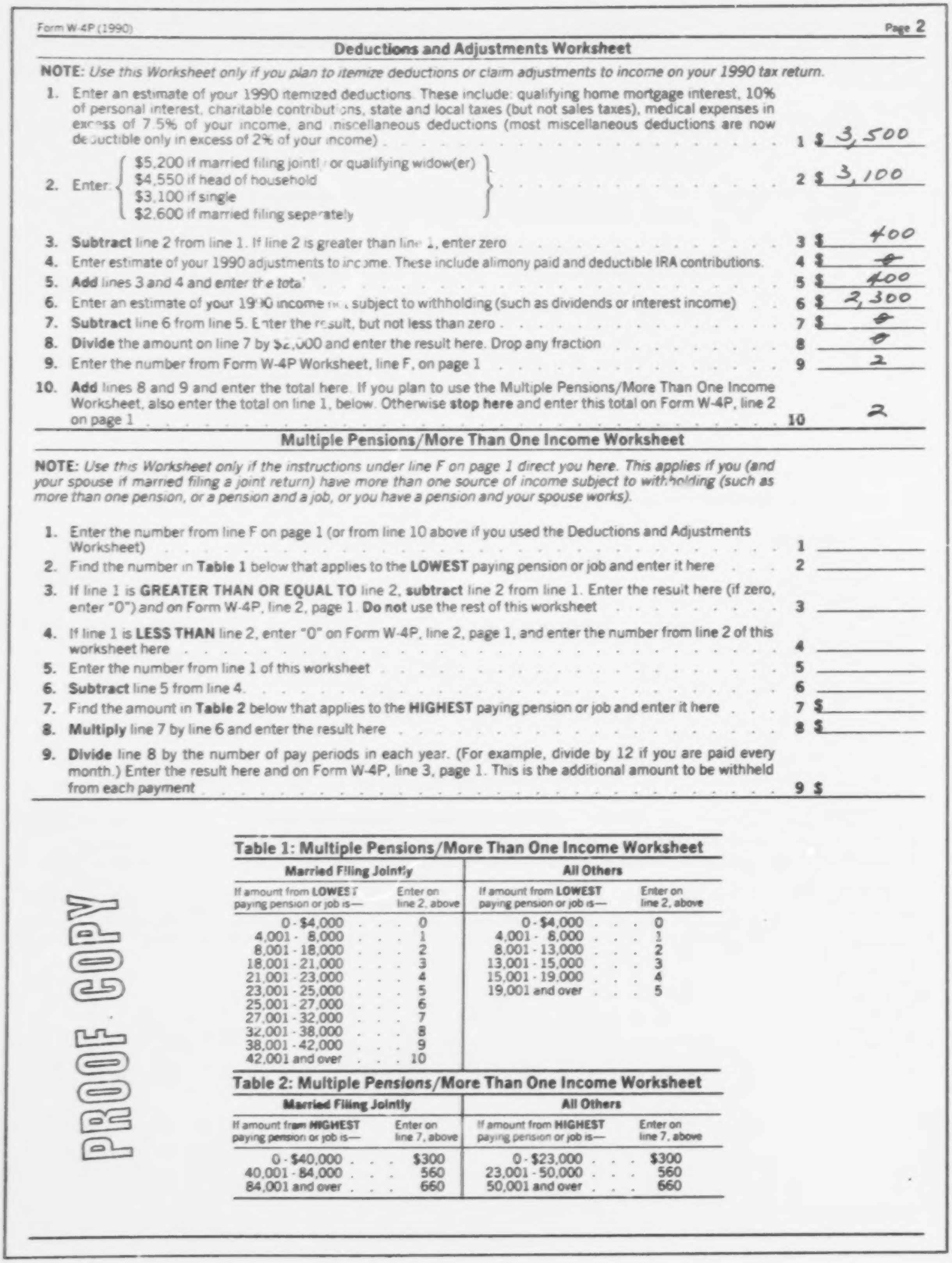
2 I want my withholding from each **periodic** pension or annuity payment to be figured using the number of allowances and marital status shown. (You may also designate an amount on line 3.) . . . . ▶ 2 (Enter number of allowances)

Marital status: ☒ Single ☐ Married ☐ Married, but withhold at higher Single rate

3 I want the following additional amount withheld from each pension or annuity payment. **Note:** *For periodic payments, you cannot enter an amount here without entering the number (including zero) of allowances on line 2* ▶ $

Your signature ▶ Sam Peterson Date ▶ Jan. 10, 1990

Exhibit 15, filled-in



Form W-4P (1990) Page 2

Deductions and Adjustments Worksheet

NOTE: *Use this Worksheet only if you plan to itemize deductions or claim adjustments to income on your 1990 tax return.*

1. Enter an estimate of your 1990 itemized deductions. These include: qualifying home mortgage interest, 10% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) . . . 1 $ 3,500
2. Enter { $5,200 if married filing jointly or qualifying widow(er) / $4,550 if head of household / $3,100 if single / $2,600 if married filing seperately } . . . 2 $ 3,100
3. **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter zero . . . 3 $ 400
4. Enter estimate of your 1990 adjustments to income. These include alimony paid and deductible IRA contributions . . . 4 $ 0
5. **Add** lines 3 and 4 and enter the total . . . 5 $ 400
6. Enter an estimate of your 1990 income not subject to withholding (such as dividends or interest income) . . . 6 $ 2,300
7. **Subtract** line 6 from line 5. Enter the result, but not less than zero . . . 7 $ 0
8. **Divide** the amount on line 7 by $2,000 and enter the result here. Drop any fraction . . . 8 0
9. Enter the number from Form W-4P Worksheet, line F, on page 1 . . . 9 2
10. **Add** lines 8 and 9 and enter the total here. If you plan to use the Multiple Pensions/More Than One Income Worksheet, also enter the total on line 1, below. Otherwise **stop here** and enter this total on Form W-4P, line 2 on page 1 . . . 10 2

Multiple Pensions/More Than One Income Worksheet

NOTE: *Use this Worksheet only if the instructions under line F on page 1 direct you here. This applies if you (and your spouse if married filing a joint return) have more than one source of income subject to withholding (such as more than one pension, or a pension and a job, or you have a pension and your spouse works).*

1. Enter the number from line F on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) . . . 1 ______
2. Find the number in **Table 1** below that applies to the **LOWEST** paying pension or job and enter it here . . . 2 ______
3. If line 1 is **GREATER THAN OR EQUAL TO** line 2, **subtract** line 2 from line 1. Enter the result here (if zero, enter "0") and on Form W-4P, line 2, page 1. **Do not** use the rest of this worksheet . . . 3 ______
4. If line 1 is **LESS THAN** line 2, enter "0" on Form W-4P, line 2, page 1, and enter the number from line 2 of this worksheet here . . . 4 ______
5. Enter the number from line 1 of this worksheet . . . 5 ______
6. **Subtract** line 5 from line 4 . . . 6 ______
7. Find the amount in **Table 2** below that applies to the **HIGHEST** paying pension or job and enter it here . . . 7 $ ______
8. **Multiply** line 7 by line 6 and enter the result here . . . 8 $ ______
9. **Divide** line 8 by the number of pay periods in each year. (For example, divide by 12 if you are paid every month.) Enter the result here and on Form W-4P, line 3, page 1. This is the additional amount to be withheld from each payment . . . 9 $ ______

Table 1: Multiple Pensions/More Than One Income Worksheet

Married Filing Jointly		All Others	
If amount from **LOWEST** paying pension or job is—	Enter on line 2, above	If amount from **LOWEST** paying pension or job is—	Enter on line 2, above
0 - $4,000	0	0 - $4,000	0
4,001 - 8,000	1	4,001 - 8,000	1
8,001 - 18,000	2	8,001 - 13,000	2
18,001 - 21,000	3	13,001 - 15,000	3
21,001 - 23,000	4	15,001 - 19,000	4
23,001 - 25,000	5	19,001 and over	5
25,001 - 27,000	6		
27,001 - 32,000	7		
32,001 - 38,000	8		
38,001 - 42,000	9		
42,001 and over	10		

Table 2: Multiple Pensions/More Than One Income Worksheet

Married Filing Jointly		All Others	
If amount from **HIGHEST** paying pension or job is—	Enter on line 7, above	If amount from **HIGHEST** paying pension or job is—	Enter on line 7, above
0 - $40,000	$300	0 - $23,000	$300
40,001 - 84,000	560	23,001 - 50,000	560
84,001 and over	660	50,001 and over	660

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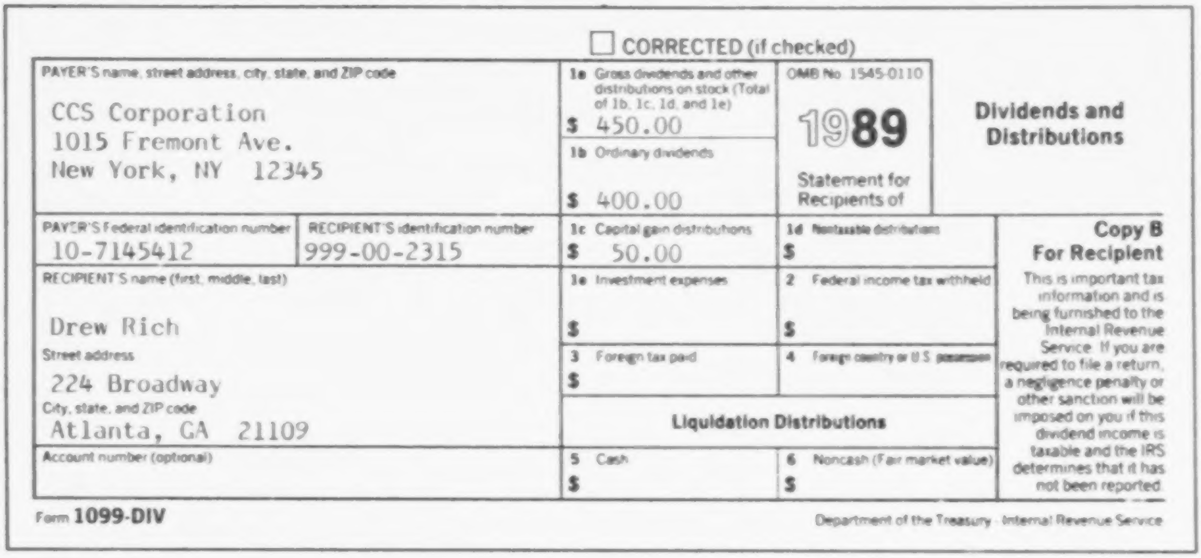
Comprehensive Problems

Problem 1

Drew Rich is a 65-year-old single taxpayer. He has received $13,000 in interest income for 1989 from the Main Street Bank and $450 in dividends and other distributions on stock from the CCS Corporation of New York. His Form 1099–DIV is shown in Exhibit CP–1.

Exhibit CP–1



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
CCS Corporation
1015 Fremont Ave.
New York, NY 12345

1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 450.00

1b Ordinary dividends $ 400.00

OMB No. 1545-0110

1989

Statement for Recipients of

Dividends and Distributions

PAYER'S Federal identification number 10-7145412

RECIPIENT'S identification number 999-00-2315

1c Capital gain distributions $ 50.00

1d Nontaxable distributions $

RECIPIENT'S name (first, middle, last)
Drew Rich

Street address
224 Broadway

City, state, and ZIP code
Atlanta, GA 21109

Account number (optional)

1e Investment expenses $

2 Federal income tax withheld $

3 Foreign tax paid $

4 Foreign country or U.S. possession

Liquidation Distributions

5 Cash $

6 Noncash (Fair market value) $

Copy B
For Recipient
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Mr. Rich started receiving $500 a month under his company's pension plan on January 3, 1988. He had not contributed to his pension plan. He told the company to withhold $150 income tax from each monthly payment. Mr. Rich also sold some stock in 1989. He sold 60 shares of NET stock on May 19, 1989, for $7,000 and paid a $225 selling commission. He had purchased the stock on January 14, 1989. His original purchase price for the NET stock was $150 per share. He sold 225 shares of TRO stock on June 14, 1989, for $20,000. On April 24, 1975, he had paid $90 a share for the TRO stock. His selling commission for the TRO stock was $100. His basis in the NET and TRO stocks has not changed.

Mr. Rich received social security benefits and tax-exempt interest. His tax-exempt interest income for the year is $8,000. He does not receive income from foreign sources, U.S. possessions, or Puerto Rico. Mr. Rich is not liable for the Supplemental Medicare premium because he was eligible for Medicare Part A benefits for only 5 months of 1989. His Form SSA–1099 is shown in Exhibit CP–2.

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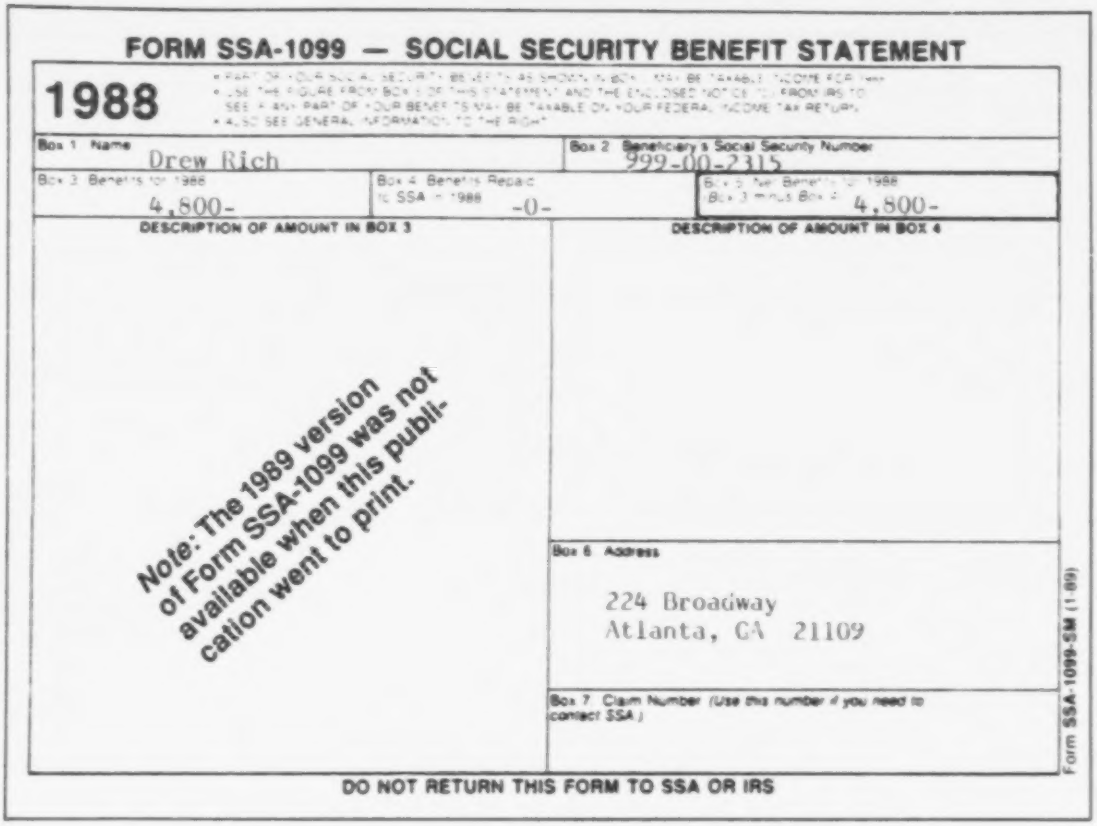
Exhibit CP-2



FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1988

- PART OF YOUR SOCIAL SECURITY BENEFITS AS SHOWN IN BOX 5 MAY BE TAXABLE INCOME FOR 1988
- USE THE FIGURE FROM BOX 5 OF THIS STATEMENT AND THE ENCLOSED NOTICE 703 FROM IRS TO SEE IF ANY PART OF YOUR BENEFITS MAY BE TAXABLE ON YOUR FEDERAL INCOME TAX RETURN.
- ALSO SEE GENERAL INFORMATION TO THE RIGHT

Box 1 Name Drew Rich		Box 2 Beneficiary's Social Security Number 999-00-2315
Box 3 Benefits for 1988 4,800-	Box 4 Benefits Repaid to SSA in 1988 -0-	Box 5 Net Benefits for 1988 (Box 3 minus Box 4) 4,800-

DESCRIPTION OF AMOUNT IN BOX 3

Note: The 1989 version of Form SSA-1099 was not available when this publication went to print.

DESCRIPTION OF AMOUNT IN BOX 4

Box 6 Address

224 Broadway
Atlanta, GA 21109

Box 7 Claim Number *(Use this number if you need to contact SSA.)*

Form SSA-1099-SM (1-89)

DO NOT RETURN THIS FORM TO SSA OR IRS

Mr. Rich does not wish to contribute to the Presidential Election Campaign Fund. Complete lines 1 through 67 of Mr. Rich's Form 1040, related schedules, forms, and worksheets (Exhibits CP-3 through CP-8).

Exhibit CP-3

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial Last name

If joint return, spouse's first name and initial Last name

Home address (number and street). (If P.O. box, see page 7.) Apt. no.

City, town, or post office, state and ZIP code. (If foreign address, see page 7.)

Your social security number

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign
Do you want $1 to go to this fund? Yes No
If joint return, does your spouse want $1 to go to this fund? Yes No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ **Married filing separate return.** Enter spouse's social security no. above and full name here ____________
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here ____________
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.
b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

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If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of **other** dependents on 6c ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7 Wages, salaries, tips, etc. *(attach Form(s) W-2)* 7
8a **Taxable** interest income *(also attach Schedule B if over $400)* 8a
b **Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b
9 Dividend income *(also attach Schedule B if over $400)* 9
10 Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions 10
11 Alimony received 11
12 Business income or (loss) *(attach Schedule C)* 12
13 Capital gain or (loss) *(attach Schedule D)* 13
14 Capital gain distributions not reported on line 13 (see page 11) 14
15 Other gains or (losses) *(attach Form 4797)* 15
16a Total IRA distributions 16a 16b Taxable amount (see page 11) 16b
17a Total pensions and annuities 17a 17b Taxable amount (see page 12) 17b
18 Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)* 18
19 Farm income or (loss) *(attach Schedule F)* 19
20 Unemployment compensation (insurance) (see page 13) 20
21a Social security benefits 21a 21b Taxable amount (see page 13) 21b
22 Other income (list type and amount—see page 13) 22
23 Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶ 23

Adjustments to Income

(See Instructions on page 14.)

24 Your IRA deduction, from applicable worksheet on page 15 or 16 24
25 Spouse's IRA deduction, from applicable worksheet on page 15 or 16 25
26 Self-employed health insurance deduction, from worksheet on page 15 26
27 Keogh retirement plan and self-employed SEP deduction 27
28 Penalty on early withdrawal of savings 28
29 Alimony paid. **a** Recipient's last name ____________ and **b** social security number ____________ 29
30 Add lines 24 through 29. These are your **total adjustments** ▶ 30

Adjusted Gross Income

31 Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions.* ▶ 31

Exhibit CP–4

Form 1040 (1989)

Tax Computation

32 Amount from line 31 (adjusted gross income) **32**

33a Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind.
Add the number of boxes checked and enter the total here . . . ▶ **33a** ☐

b If someone (such as your parent) can claim you as a dependent, check here . . ▶ **33b** ☐

c If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here . . . ▶ **33c** ☐

34 Enter the **larger** of
- Your **standard deduction** (from page 17 of the Instructions), **OR**
- Your **itemized deductions** (from Schedule A, line 26).

If you itemize, attach Schedule A and check here . . ▶ ☐ **34**

35 Subtract line 34 from line 32. Enter the result here . . . **35**

36 Multiply $2,000 by the total number of exemptions claimed on line 6e . . . **36**

37 **Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) **37**

Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.

38 Enter tax. Check if from: **a** ☐ Tax Table, **b** ☐ Tax Rate Schedules, or **c** ☐ Form 8615 **38**
(If any is from Form(s) 8814, enter that amount here . . . ▶ **d** ____________)

39 Additional taxes. Check if from: **a** ☐ Form 4970 **b** ☐ Form 4972 . . . **39**

40 Add lines 38 and 39. Enter the total . . . ▶ **40**

Credits

(See Instructions on page 18.)

41 Credit for child and dependent care expenses *(attach Form 2441)* **41**

42 Credit for the elderly or the disabled *(attach Schedule R)* . . **42**

43 Foreign tax credit *(attach Form 1116)* . . . **43**

44 General business credit. Check if from:
a ☐ Form 3800 or **b** ☐ Form (specify) ________ . . . **44**

45 Credit for prior year minimum tax *(attach Form 8801)* . . . **45**

46 Add lines 41 through 45. Enter the total . . . **46**

47 Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶ **47**

Other Taxes

(Including Advance EIC Payments)

48 Self-employment tax *(attach Schedule SE)* . . . **48**

49 Alternative minimum tax *(attach Form 6251)* . . . **49**

50 Recapture taxes (see page 18). Check if from: **a** ☐ Form 4255 **b** ☐ Form 8611 **50**

51 Social security tax on tip income not reported to employer *(attach Form 4137)* **51**

52 Tax on an IRA or a qualified retirement plan *(attach Form 5329)* . . . **52**

53 Add lines 47 through 52. Enter the total . . . ▶ **53**

Medicare Premium

54 Supplemental Medicare premium *(attach Form 8808)* . . . **54**

55 Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶ **55**

Payments

Attach Forms W-2, W-2G, and W-2P to front.

56 Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐) **56**

57 1989 estimated tax payments and amount applied from 1988 return **57**

58 Earned income credit (see page 19) . . . **58**

59 Amount paid with Form 4868 (extension request) . . . **59**

60 Excess social security tax and RRTA tax withheld (see page 20) **60**

61 Credit for Federal tax on fuels *(attach Form 4136)* . . . **61**

62 Regulated investment company credit *(attach Form 2439)* . . **62**

63 Add lines 56 through 62. These are your **total payments** . . . ▶ **63**

Refund or Amount You Owe

64 If line 63 is larger than line 55, enter amount **OVERPAID** . . . ▶ **64**

65 Amount of line 64 to be **REFUNDED TO YOU** . . . ▶ **65**

66 Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶ **66**

67 If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it . . . **67**

68 Penalty for underpayment of estimated tax (see page 21) . . . **68**

Sign Here

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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Exhibit CP-5

Schedules A&B (Form 1040) 1989 OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)

Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income. (List name of payer.) ▶	2	
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income				Amount
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶			4	
5 Add the amounts on line 4. Enter the total here			5	
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6			▨
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7			▨
8 Add the amounts on lines 6 and 7. Enter the total here			8	
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶			9	

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.

	Yes	No
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		
b If "Yes," enter the name of the foreign country ▶	▨	▨
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exhibit CP-6

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses
(And Reconciliation of Forms 1099-B)

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040 | **Your social security number**

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples 1

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example: 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)

2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)

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2b Amounts from Schedule D-1, line 2b (attach Schedule D-1) . .

2c **Total** (add column (d) of lines 2a and 2b) . . ► 2c

2d **Other Transactions (Include Real Estate Transactions From Forms 1099-S.)**

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14 . . 3

4 Short-term gain from installment sales from Form 6252, line 22 or 30 4

5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries . . 5

6 Short-term capital loss carryover 6

7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g) . . 7 ( )

8 Net short-term gain or (loss), combine columns (f) and (g) of line 7 8

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)

9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)

9c **Total** (add column (d) of lines 9a and 9b) . . ► 9c

9d **Other Transactions (Include Real Estate Transactions From Forms 1099-S.)**

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14 . 10

11 Long-term gain from installment sales from Form 6252, line 22 or 30 11

12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries . . 12

13 Capital gain distributions 13

14 Enter gain from Form 4797, line 7 or 9 14

15 Long-term capital loss carryover 15

16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g) . 16 ( )

17 Net long-term gain or (loss), combine columns (f) and (g) of line 16 17

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule D (Form 1040) 1989**

Exhibit CP–7

Schedule D (Form 1040) 1989 Attachment Sequence No. 12A Page 2

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.) **Your social security number**

Part III Summary of Parts I and II

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 — 18

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of

a The (loss) on line 18, **or**

b ($3,000) or, if married filing a separate return, ($1,500) — 19 ( )

Note: *When figuring whether 19a or 19b is* **smaller**, *treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** — 20

Note: *For lines 21 through 36, treat all amounts as positive.*

21 Enter the loss shown on line 19 — 21

22 Enter the amount shown on Form 1040, line 36 — 22

23 Combine lines 20, 21, and 22. If zero or less, enter zero — 23

24 Enter the **smaller** of line 21 or line 23 — 24

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 — 25

26 Enter the gain, if any, shown on line 17 — 26

27 Enter the amount shown on line 24 — 27

28 Add lines 26 and 27 — 28

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990** — 29

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 — 30

31 Enter the gain, if any, shown on line 8 — 31

32 Enter the amount shown on line 24 — 32

33 Enter the amount, if any, shown on line 25 — 33

34 Subtract line 33 from line 32. If zero or less, enter zero — 34

35 Add lines 31 and 34 — 35

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** — 36

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method ▶ ☐

38 Enter the face amount of the note or other obligation ▶

39 Enter the percentage of valuation of the note or other obligation ▶

Part VI Reconcile Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

		Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40	Form 1040, line 22	40
41	Schedule C (Form 1040)	41
42	Schedule D (Form 1040)	42
43	Schedule E (Form 1040)	43
44	Schedule F (Form 1040)	44
45	Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45
46	Total (add lines 40 through 45)	46

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Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Exhibit CP–8

Social Security Benefits Worksheet (Keep for your records)

Check only one box

☐ **A.** Single, Head of household, or Qualifying widow(er) with dependent child
☐ **B.** Married filing a joint return
☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989
☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) . . . . ______

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

2. Divide the amount on line 1 above by 2 . . . . ______
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 . . . . ______
4. Add lines 2 and 3 . . . . ______
5. Enter the total adjustments from Form 1040, line 30 . . . . ______
6. Subtract line 5 from line 4 . . . . ______
7. Enter { $25,000 if you checked Box **A** or **D,** or
$32,000 if you checked Box **B,** or
-0- if you checked Box **C** } . . . . ______
8. Subtract line 7 from line 6. Enter the result, but not less than zero . . . . . . ______

Note: *If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 . . . . ______
10. Taxable social security benefits.

- First, enter on Form 1040, line 21a, the amount from line 1 above.
- Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b . . . . ______

Note: *If part of your benefits are taxable for 1989* ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Problem 2

Jim and Leslie Tyler are filing a joint return. Mr. Tyler retired on disability in 1984 at age 54. He submitted at that time the physician's statement certifying that he is permanently and totally disabled. Mr. Tyler received $185 a week for the entire year in disability income. Mrs. Tyler was 61 at the end of 1989 and she received a fully taxable pension of $8,000, and lottery winnings of $3,000. Mr. and Mrs. Tyler both received interest income from certificates of deposit from FNB of Anytown totaling $4,000. They would like $2 to go the Presidential Election Campaign Fund.

The Tylers sold their home on December 1, 1989. The Tylers had owned and lived in the home for 20 years as their main home. Their adjusted basis was $50,000 and the house was sold for $120,000. A condominium costing $80,000 was purchased on December 19, 1989, as a replacement home. Neither has excluded gain from the sale of a home in the past, but they would like to do so this year. Their address is 1050 Americana Dr., Anycity, FL 33000.

They did not use any rooms in their home for business or rent them out in either home. Jim's social security number is 987–00–4321 and Leslie's is 543–00–2111.

Complete Form 1040, lines 1 through 40, Schedule R, and Form 2119 (Exhibits CP–9 through CP–14) for the Tylers. (Note: Form 1040, line 32 shows the same amount as line 31.)

Exhibit CP-9

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 | OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

L A B E L H E R E

Your first name and initial — Last name — **Your social security number**

If joint return, spouse's first name and initial — Last name — **Spouse's social security number**

Home address (number and street). (If P.O. box, see page 7.) — Apt. no.

City, town, or post office, state and ZIP code. (If foreign address, see page 7.)

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign ▶

Do you want $1 to go to this fund?	Yes	No	**Note:** *Checking "Yes" will not change your tax or reduce your refund.*
If joint return, does your spouse want $1 to go to this fund?	Yes	No	

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b ☐ **Spouse**

No. of boxes checked on 6a and 6b ______

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

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If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 9) ______

No. of other dependents on 6c ______

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*		7
8a	**Taxable** interest income *(also attach Schedule B if over $400)*		8a
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a	8b	
9	Dividend income *(also attach Schedule B if over $400)*		9
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions		10
11	Alimony received		11
12	Business income or (loss) *(attach Schedule C)*		12
13	Capital gain or (loss) *(attach Schedule D)*		13
14	Capital gain distributions not reported on line 13 (see page 11)		14
15	Other gains or (losses) *(attach Form 4797)*		15
16a	Total IRA distributions	16a	16b Taxable amount (see page 11) 16b
17a	Total pensions and annuities	17a	17b Taxable amount (see page 12) 17b
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18
19	Farm income or (loss) *(attach Schedule F)*		19
20	Unemployment compensation (insurance) (see page 13)		20
21a	Social security benefits	21a	21b Taxable amount (see page 13) 21b
22	Other income (list type and amount—see page 13)		22
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23

Adjustments to Income

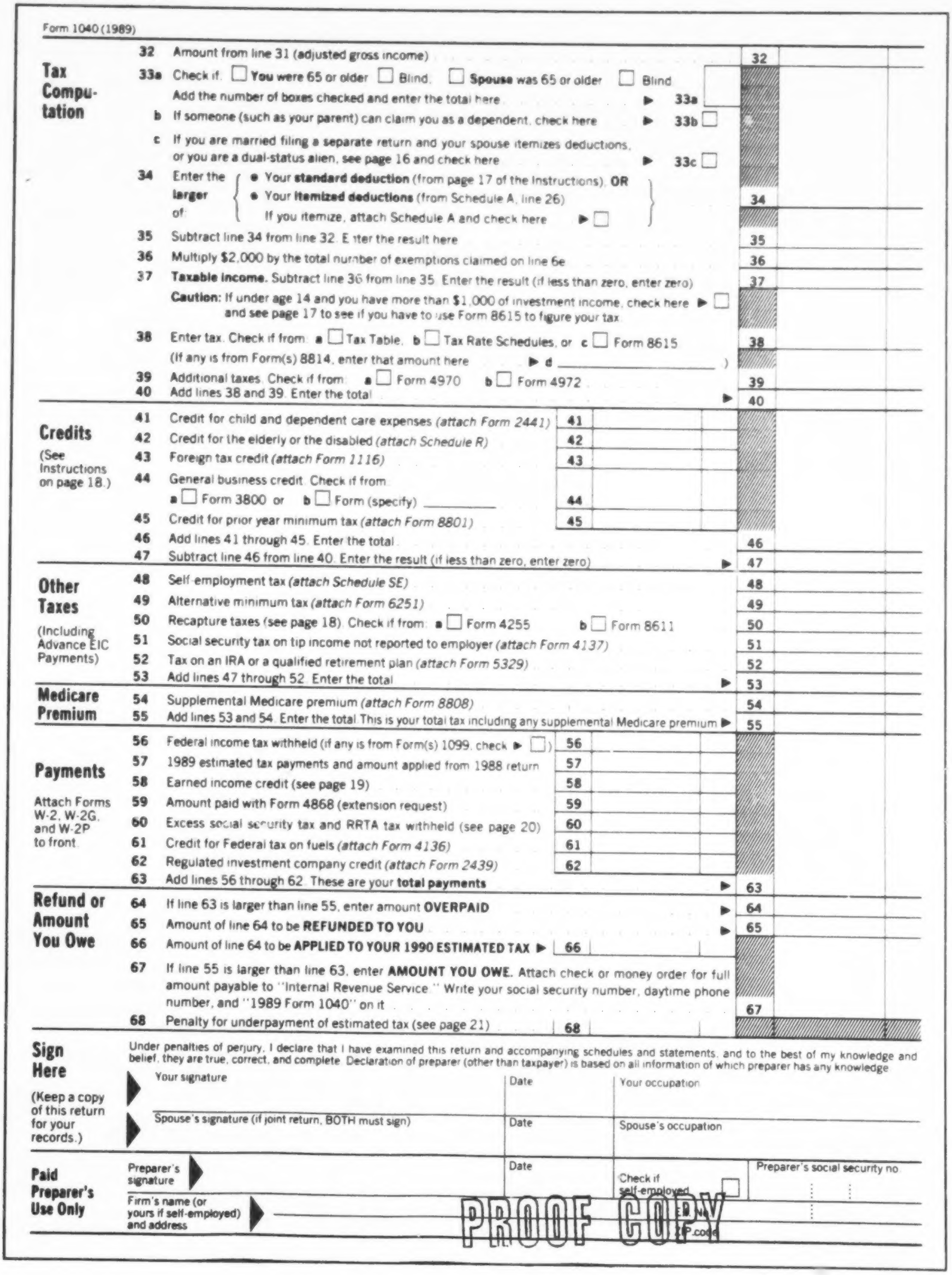
(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name ______ and **b** social security number	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶		30

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31

Exhibit CP-10



Form 1040 (1989)

Tax Computation	32	Amount from line 31 (adjusted gross income)		32
	33a	Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind Add the number of boxes checked and enter the total here ▶ 33a		
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 33b ☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶ 33c ☐		
	34	Enter the larger of: • Your **standard deduction** (from page 17 of the Instructions), OR • Your **itemized deductions** (from Schedule A, line 26) If you itemize, attach Schedule A and check here ▶ ☐		34
	35	Subtract line 34 from line 32. Enter the result here		35
	36	Multiply $2,000 by the total number of exemptions claimed on line 6e		36
	37	**Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) **Caution:** If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax		37
	38	Enter tax. Check if from: a ☐ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615 (If any is from Form(s) 8814, enter that amount here ▶ d ______)		38
	39	Additional taxes. Check if from: a ☐ Form 4970 b ☐ Form 4972		39
	40	Add lines 38 and 39. Enter the total ▶		40
Credits (See Instructions on page 18.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41	
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42	
	43	Foreign tax credit *(attach Form 1116)*	43	
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ______	44	
	45	Credit for prior year minimum tax *(attach Form 8801)*	45	
	46	Add lines 41 through 45. Enter the total		46
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶		47
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*		48
	49	Alternative minimum tax *(attach Form 6251)*		49
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611		50
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*		51
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*		52
	53	Add lines 47 through 52. Enter the total ▶		53
Medicare Premium	54	Supplemental Medicare premium *(attach Form 8808)*		54
	55	Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶		55
Payments Attach Forms W-2, W-2G, and W-2P to front	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56	
	57	1989 estimated tax payments and amount applied from 1988 return	57	
	58	Earned income credit (see page 19)	58	
	59	Amount paid with Form 4868 (extension request)	59	
	60	Excess social security tax and RRTA tax withheld (see page 20)	60	
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61	
	62	Regulated investment company credit *(attach Form 2439)*	62	
	63	Add lines 56 through 62. These are your **total payments** ▶		63
Refund or Amount You Owe	64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶		64
	65	Amount of line 64 to be **REFUNDED TO YOU** ▶		65
	66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶	66	
	67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it		67
	68	Penalty for underpayment of estimated tax (see page 21)	68	

Sign Here (Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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Exhibit CP–11

Schedules A&B (Form 1040) 1989 OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)

Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. **08**

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income. (List name of payer.) ▶	2	
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income				Amount
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶			4	
5 Add the amounts on line 4. Enter the total here			5	
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6			▨
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7			▨
8 Add the amounts on lines 6 and 7. Enter the total here			8	
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶			9	

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

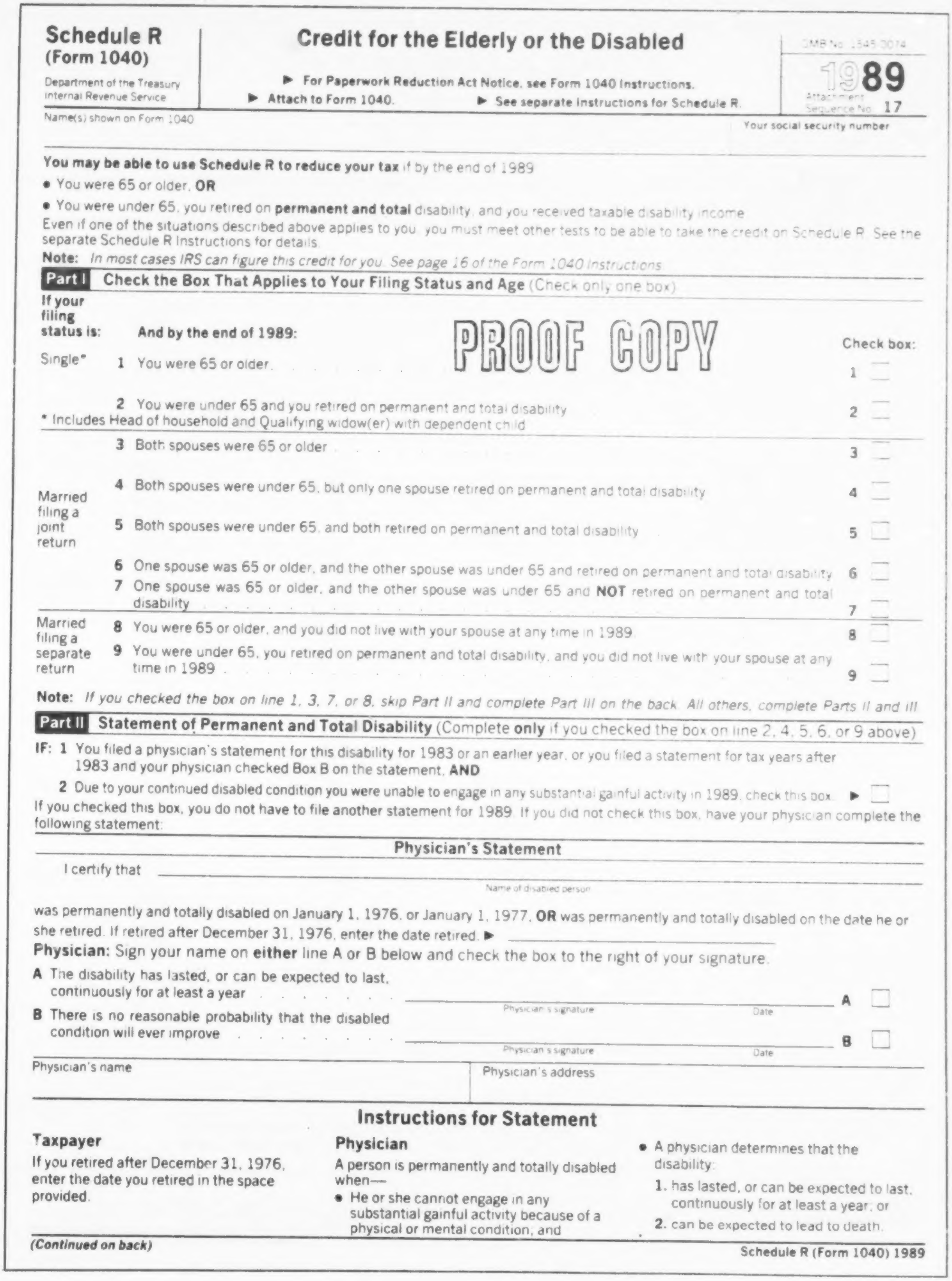
Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	**Yes**	**No**
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		
b If "Yes," enter the name of the foreign country ▶	▨	▨
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exhibit CP-12



Schedule R
(Form 1040)
Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ **For Paperwork Reduction Act Notice, see Form 1040 Instructions.**
▶ **Attach to Form 1040.** ▶ **See separate Instructions for Schedule R.**

OMB No. 1545-0074
1989
Attachment Sequence No. 17

Name(s) shown on Form 1040

Your social security number

You may be able to use Schedule R to reduce your tax if by the end of 1989

- You were 65 or older, **OR**
- You were under 65, you retired on **permanent and total** disability, and you received taxable disability income

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R Instructions for details.

Note: *In most cases IRS can figure this credit for you. See page 16 of the Form 1040 Instructions.*

Part I **Check the Box That Applies to Your Filing Status and Age** (Check only one box)

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If your filing status is:		**And by the end of 1989:**	**Check box:**
Single*	1	You were 65 or older	1 ☐
	2	You were under 65 and you retired on permanent and total disability	2 ☐
* Includes Head of household and Qualifying widow(er) with dependent child			
Married filing a joint return	3	Both spouses were 65 or older	3 ☐
	4	Both spouses were under 65, but only one spouse retired on permanent and total disability	4 ☐
	5	Both spouses were under 65, and both retired on permanent and total disability	5 ☐
	6	One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability	6 ☐
	7	One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7 ☐
Married filing a separate return	8	You were 65 or older, and you did not live with your spouse at any time in 1989	8 ☐
	9	You were under 65, you retired on permanent and total disability, and you did not live with your spouse at any time in 1989	9 ☐

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.*

Part II **Statement of Permanent and Total Disability** (Complete **only** if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1989, check this box ▶ ☐

If you checked this box, you do not have to file another statement for 1989. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ______________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ______________

Physician: Sign your name on **either** line A or B below and check the box to the right of your signature.

A The disability has lasted, or can be expected to last, continuously for at least a year . . . . ______________ Physician's signature ______ Date **A** ☐

B There is no reasonable probability that the disabled condition will ever improve . . . . ______________ Physician's signature ______ Date **B** ☐

Physician's name

Physician's address

Instructions for Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided.

Physician

A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition, and
- A physician determines that the disability:
  1. has lasted, or can be expected to last, continuously for at least a year; or
  2. can be expected to lead to death.

(Continued on back)

Schedule R (Form 1040) 1989

Exhibit CP–13

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Part III **Figure the Amount of Your Credit**

10 Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR**
$7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR**
$3,750 if you checked the box on line 8 or 9 in Part I. **10**

Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* ***MUST*** *complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*

11 Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.) **11**

12 If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10 . . . . **12**

13 Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):

a Nontaxable part of social security benefits; and
Nontaxable part of railroad retirement benefits treated as social security. **13a**

b Nontaxable veterans' pensions; and
Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law. **13b**

c Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c **13c**

14 Enter the amount from Form 1040, line 32. **14**

15 Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR**
$10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR**
$5,000 if you checked the box on line 8 or 9 in Part I. **15**

16 Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0- **16**

17 Divide the amount on line 16 by 2. Enter the result **17**

18 Add lines 13c and 17. Enter the total **18**

19 Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21 . . . . **19**

20 Decimal amount used to figure the credit. **20** ×.15

21 Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim* **21**

Exhibit CP-14

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

► See Separate Instructions

► Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print	Your first name and initial (If joint, also give spouse's name and initial.) Last name	**Your social security number**
	Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address)	**Spouse's social security number**
	City, town, or post office, state, and ZIP code	

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Part I **Facts About You and Your Home**

		Yes	No
1a	Date former main home was sold ►		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ► $		
2a	Have you bought or built a new main home?		
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		
3a	Were you 55 or older on date of sale?		
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**		
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**		
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☐ both of you		
f	Social security number of spouse, at time of sale, if different from above ► (Enter "None" if you were not married at time of sale.)		

Part II **Figure Your Gain (Do not include amounts that you deduct as moving expenses.)**

4	Selling price of home. (Do not include personal property items.)	4	
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	
6	Subtract line 5 from line 4. This is the amount realized	6	
7	Basis of home sold (See Instructions.)	7	
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III **If Age 55 or Older, Figure Your One-Time Exclusion** *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	

Part IV **Figure Gain To Be Postponed and Adjusted Basis of New Home** *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	
12	Subtract line 11 from line 6 (adjusted sales price)	12	
13a	Cost of new home	13a	
b	Enter the date you moved into your new main home ►		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature Date Spouse's Signature Date

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

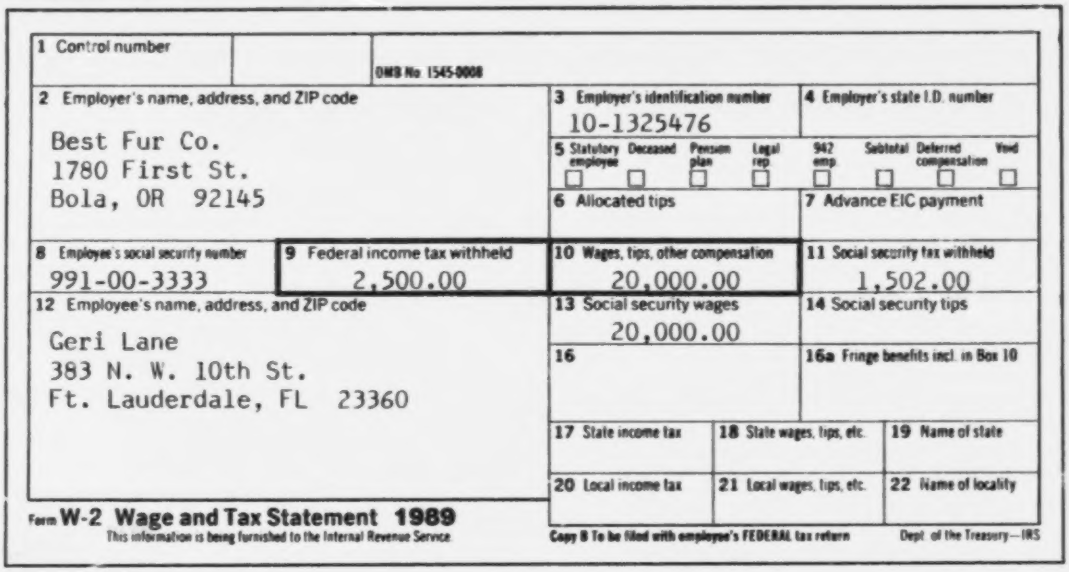
For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Problem 3

Geri Lane, a single parent, lives at 383 N. W. 10th Street, Fort Lauderdale, FL 23360. Her 4-year-old dependent daughter, Rachel, lived with her for the entire year. Rachel's social security number is 516-00-1777. Ms. Lane is employed by the Best Fur Company, headquartered in Bola, Oregon. Her Form W-2 is shown as Exhibit CP-15.

Exhibit CP-15



1 Control number

OMB No. 1545-0008

2 Employer's name, address, and ZIP code

Best Fur Co.
1780 First St.
Bola, OR 92145

3 Employer's identification number: 10-1325476

4 Employer's state I.D. number

5 ☐ Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number: 991-00-3333

9 Federal income tax withheld: 2,500.00

10 Wages, tips, other compensation: 20,000.00

11 Social security tax withheld: 1,502.00

12 Employee's name, address, and ZIP code

Geri Lane
383 N. W. 10th St.
Ft. Lauderdale, FL 23360

13 Social security wages: 20,000.00

14 Social security tips

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

22 Name of locality

Form **W-2 Wage and Tax Statement 1989**

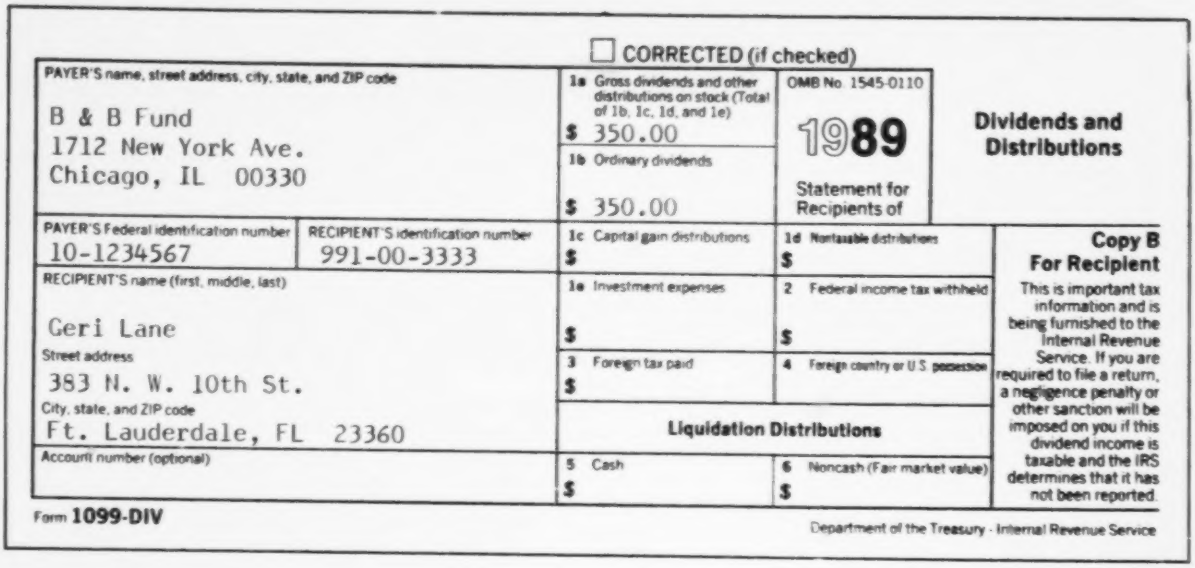
This information is being furnished to the Internal Revenue Service

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—IRS

In addition to the above income she received $400 in interest from a certificate of deposit, winnings of $1,100 from the slot machines in Atlantic City, and $350 in dividends. Her Form 1099-DIV is shown as Exhibit CP-16.

Exhibit CP-16



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

B & B Fund
1712 New York Ave.
Chicago, IL 00330

1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e) $ 350.00

1b Ordinary dividends $ 350.00

OMB No. 1545-0110

1989

Statement for Recipients of

Dividends and Distributions

PAYER'S Federal identification number 10-1234567

RECIPIENT'S identification number 991-00-3333

1c Capital gain distributions $

1d Nontaxable distributions $

RECIPIENT'S name (first, middle, last)

Geri Lane

Street address

383 N. W. 10th St.

City, state, and ZIP code

Ft. Lauderdale, FL 23360

1e Investment expenses $

2 Federal income tax withheld $

3 Foreign tax paid $

4 Foreign country or U.S. possession

Liquidation Distributions

5 Cash $

6 Noncash (Fair market value) $

Account number (optional)

Copy B
For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Ms. Lane also sold 25 shares of Standard Electric stock for $8,000 on June 11, 1989. The stock was purchased on February 19, 1989, for $75 a share. She paid $200 in selling expenses.

Her itemized deductions follow:

Church contributions (cash)	$350
Union dues	175
Tax return preparation fee (1988 return)	60
Home mortgage interest (mortgage taken out in 1984)	5,200
Real estate taxes	965
Personal property tax	390
Personal interest (car loan, credit card finance charges, etc.)	1,620
Medical and dental expenses	845
Gambling losses	210

She would like $1 to go to the Presidential Election Campaign Fund. Complete lines 1 through 67 of her Form 1040 (Exhibits CP-17 and CP-18), and Schedules A and D (Exhibits CP-19, CP-20 and CP-21).

Exhibit CP-17

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 | OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name | **Your social security number**

If joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Home address (number and street). (If P.O. box, see page 7.) | Apt. no.

City, town, or post office, state and ZIP code. (If foreign address, see page 7.)

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign
Do you want $1 to go to this fund? Yes No
If joint return, does your spouse want $1 to go to this fund? Yes No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ **Married filing separate return. Enter spouse's social security no. above and full name here.** ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☐ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.
b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 9) ____

No. of other dependents on 6c ____

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d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7 Wages, salaries, tips, etc. *(attach Form(s) W-2)* | 7
8a **Taxable** interest income *(also attach Schedule B if over $400)* | 8a
b **Tax-exempt** interest income (see page 11). DON'T include on line 8a | 8b
9 Dividend income *(also attach Schedule B if over $400)* | 9
10 Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions | 10
11 Alimony received | 11
12 Business income or (loss) *(attach Schedule C)* | 12
13 Capital gain or (loss) *(attach Schedule D)* | 13
14 Capital gain distributions not reported on line 13 (see page 11) | 14
15 Other gains or (losses) *(attach Form 4797)* | 15
16a Total IRA distributions | 16a | 16b Taxable amount (see page 11) | 16b
17a Total pensions and annuities | 17a | 17b Taxable amount (see page 12) | 17b
18 Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)* | 18
19 Farm income or (loss) *(attach Schedule F)* | 19
20 Unemployment compensation (insurance) (see page 13) | 20
21a Social security benefits | 21a | 21b Taxable amount (see page 13) | 21b
22 Other income (list type and amount—see page 13) ______ | 22
23 Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶ | 23

Adjustments to Income

(See Instructions on page 14.)

24 Your IRA deduction, from applicable worksheet on page 15 or 16 | 24
25 Spouse's IRA deduction, from applicable worksheet on page 15 or 16 | 25
26 Self-employed health insurance deduction, from worksheet on page 15 | 26
27 Keogh retirement plan and self-employed SEP deduction | 27
28 Penalty on early withdrawal of savings | 28
29 Alimony paid. **a** Recipient's last name ______ and **b** social security number ______ | 29
30 Add lines 24 through 29. These are your **total adjustments** ▶ | 30

Adjusted Gross Income

31 Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶ | 31

Exhibit CP-18

Form 1040 (1989)

Tax Computation	32	Amount from line 31 (adjusted gross income)		32
	33a	Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here ▶ **33a**		
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ **33b** ☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶ **33c** ☐		
	34	Enter the **larger** of: • Your **standard deduction** (from page 17 of the Instructions), **OR** • Your **itemized deductions** (from Schedule A, line 26). If you itemize, attach Schedule A and check here ▶ ☐		34
	35	Subtract line 34 from line 32. Enter the result here		35
	36	Multiply $2,000 by the total number of exemptions claimed on line 6e		36
	37	**Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero)		37
		Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.		
	38	Enter tax. Check if from: a ☐ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615 (If any is from Form(s) 8814, enter that amount here ▶ d ______________)		38
	39	Additional taxes. Check if from: a ☐ Form 4970 b ☐ Form 4972		39
	40	Add lines 38 and 39. Enter the total ▶		40
Credits (See Instructions on page 18.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41	
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42	
	43	Foreign tax credit *(attach Form 1116)*	43	
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) __________	44	
	45	Credit for prior year minimum tax *(attach Form 8801)*	45	
	46	Add lines 41 through 45. Enter the total		46
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶		47
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*		48
	49	Alternative minimum tax *(attach Form 6251)*		49
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611		50
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*		51
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*		52
	53	Add lines 47 through 52. Enter the total ▶		53
Medicare Premium	54	Supplemental Medicare premium *(attach Form 8808)*		54
	55	Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶		55
Payments Attach Forms W-2, W-2G, and W-2P to front.	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56	
	57	1989 estimated tax payments and amount applied from 1988 return	57	
	58	Earned income credit (see page 19)	58	
	59	Amount paid with Form 4868 (extension request)	59	
	60	Excess social security tax and RRTA tax withheld (see page 20)	60	
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61	
	62	Regulated investment company credit *(attach Form 2439)*	62	
	63	Add lines 56 through 62. These are your **total payments** ▶		63
Refund or Amount You Owe	64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶		64
	65	Amount of line 64 to be **REFUNDED TO YOU** ▶		65
	66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶	66	
	67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it		67
	68	Penalty for underpayment of estimated tax (see page 21)	68	

Sign Here (Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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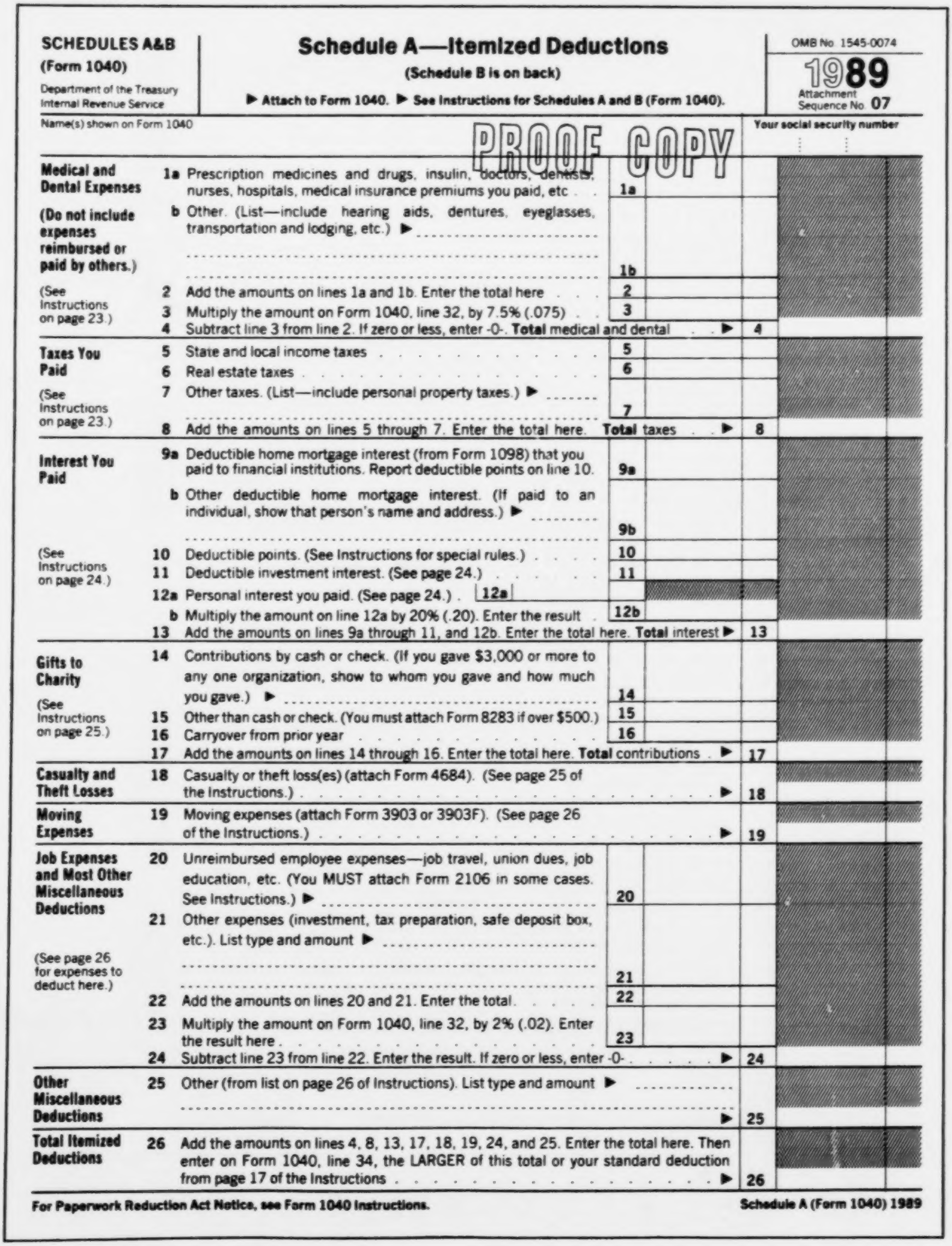
Exhibit CP-19



SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074
1989
Attachment Sequence No. 07

Name(s) shown on Form 1040

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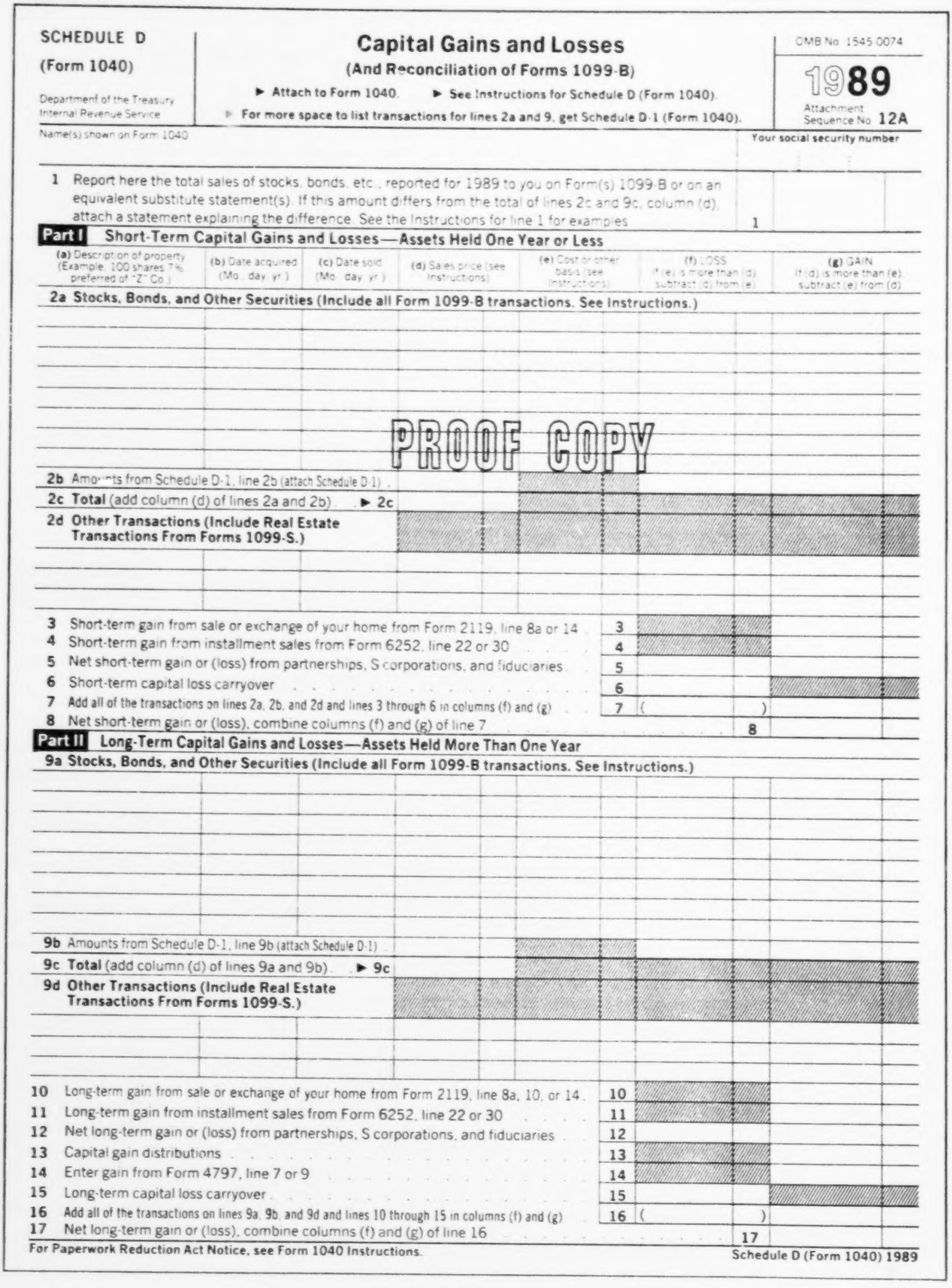
Your social security number

Medical and Dental Expenses **(Do not include expenses reimbursed or paid by others.)** (See Instructions on page 23.)	**1a**	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc	1a	
	b	Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶	1b	
	2	Add the amounts on lines 1a and 1b. Enter the total here	2	
	3	Multiply the amount on Form 1040, line 32, by 7.5% (.075)	3	
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ▶		4
Taxes You Paid (See Instructions on page 23.)	**5**	State and local income taxes	5	
	6	Real estate taxes	6	
	7	Other taxes. (List—include personal property taxes.) ▶	7	
	8	Add the amounts on lines 5 through 7. Enter the total here. **Total** taxes ▶		8
Interest You Paid (See Instructions on page 24.)	**9a**	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a	
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b	
	10	Deductible points. (See Instructions for special rules.)	10	
	11	Deductible investment interest. (See page 24.)	11	
	12a	Personal interest you paid. (See page 24.) 12a		
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b	
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶		13
Gifts to Charity (See Instructions on page 25.)	**14**	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14	
	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15	
	16	Carryover from prior year	16	
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶		17
Casualty and Theft Losses	**18**	Casualty or theft loss(es) (attach Form 4684). (See page 25 of the Instructions.) ▶		18
Moving Expenses	**19**	Moving expenses (attach Form 3903 or 3903F). (See page 26 of the Instructions.) ▶		19
Job Expenses and Most Other Miscellaneous Deductions (See page 26 for expenses to deduct here.)	**20**	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20	
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶	21	
	22	Add the amounts on lines 20 and 21. Enter the total.	22	
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here	23	
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶		24
Other Miscellaneous Deductions	**25**	Other (from list on page 26 of Instructions). List type and amount ▶		25
Total Itemized Deductions	**26**	Add the amounts on lines 4, 8, 13, 17, 18, 19, 24, and 25. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 17 of the Instructions ▶		26

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1989

Exhibit CP-20



SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
▶ For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040

Your social security number

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples 1

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Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see Instructions)	**(e)** Cost or other basis (see Instructions)	**(f)** LOSS If (e) is more than (d), subtract (d) from (e)	**(g)** GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total (add column (d) of lines 2a and 2b) ▶ 2c						
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	( )	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total (add column (d) of lines 9a and 9b) ▶ 9c						
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	( )	
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit CP–21

Schedule D (Form 1040) 1989 Attachment Sequence No **12A** Page **2**

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)	**Your social security number**

Part III Summary of Parts I and II

18	Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19	18	
19	If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:	▨	▨
a	The (loss) on line 18; **or**	▨	▨
b	($3,000) or, if married filing a separate return, ($1,500)	19	( )
	Note: *When figuring whether 19a or 19b is* ***smaller,*** *treat both numbers as if they are positive.*	▨	▨
	Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.	▨	▨

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20	Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)**	20	
	Note: *For lines 21 through 36, treat all amounts as* positive.		
21	Enter the loss shown on line 19	21	
22	Enter the amount shown on Form 1040, line 36	22	
23	Combine lines 20, 21, and 22. If zero or less, enter zero	23	
24	Enter the **smaller** of line 21 or line 23	24	

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25	Enter the loss shown on line 8			25	
26	Enter the gain, if any, shown on line 17	26		▨	▨
27	Enter the amount shown on line 24	27		▨	▨
28	Add lines 26 and 27			28	
29	Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990**			29	

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30	Enter the loss shown on line 17			30	
31	Enter the gain, if any, shown on line 8			31	
32	Enter the amount shown on line 24	32		▨	▨
33	Enter the amount, if any, shown on line 25	33		▨	▨
34	Subtract line 33 from line 32. If zero or less, enter zero			34	
35	Add lines 31 and 34			35	
36	Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990**			36	

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method ▶ ☐

38 Enter the face amount of the note or other obligation ▶ ....

39 Enter the percentage of valuation of the note or other obligation ▶ ....

Part VI Reconcile Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

			Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40	Form 1040, line 22	40	
41	Schedule C (Form 1040)	41	
42	Schedule D (Form 1040)	42	
43	Schedule E (Form 1040)	43	
44	Schedule F (Form 1040)	44	
45	Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45	
46	Total (add lines 40 through 45)	46	

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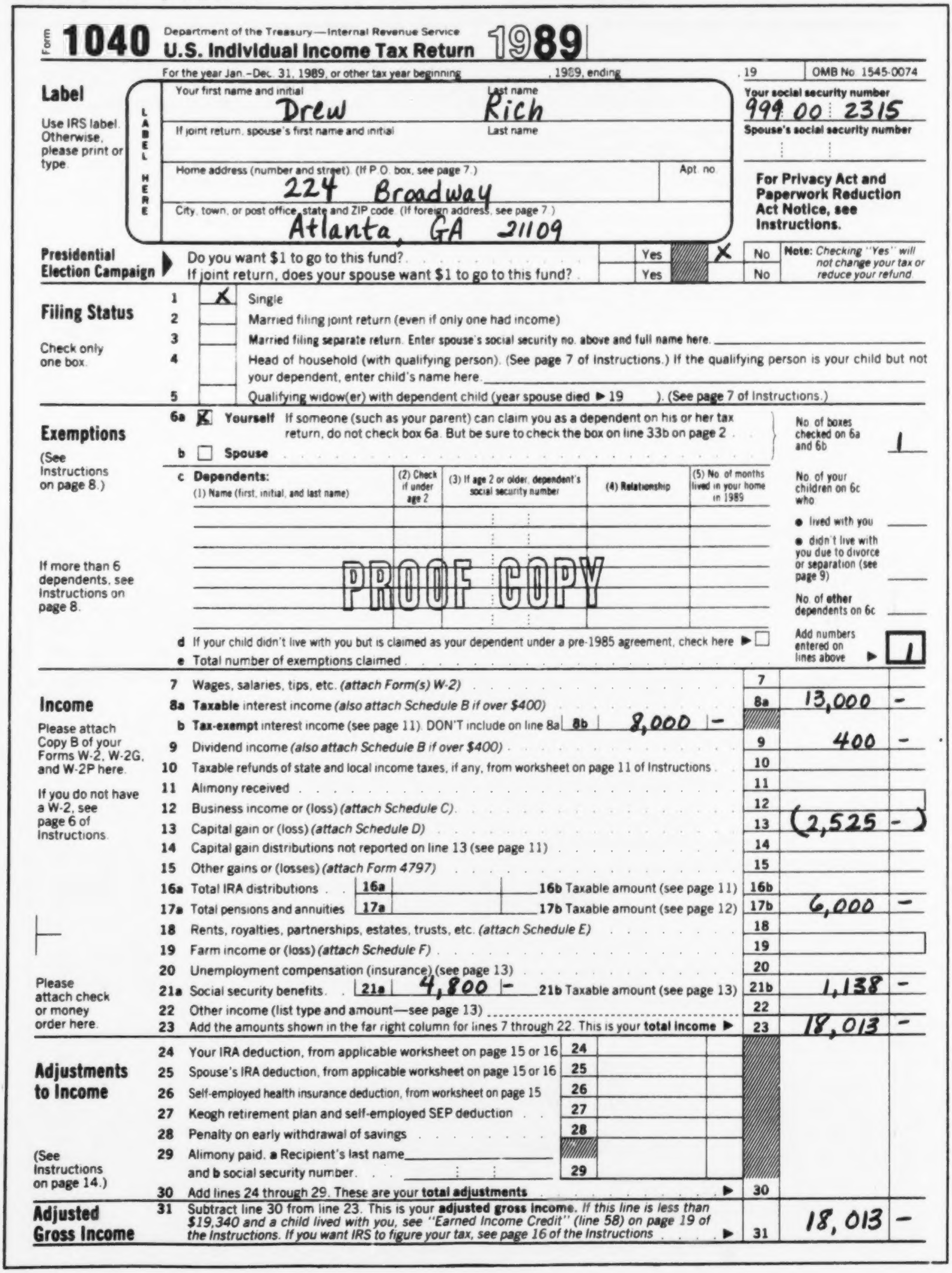
Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Answers to Comprehensive Problems

1. See filled-in Exhibits CP–3, CP–4, CP–5, CP–6, CP–7, and CP–8.
2. See filled-in Exhibits CP–9, CP–10, CP–11, CP–12, CP–13, and CP–14.
3. See filled-in Exhibits CP–17, CP–18, CP–19, CP–20, and CP–21.

Exhibit CP-3, filled-in



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Drew	Last name: Rich	Your social security number: 999 00 2315
If joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). (If P.O. box, see page 7.): 224 Broadway	Apt. no.	
City, town, or post office, state and ZIP code. (If foreign address, see page 7.): Atlanta, GA 21109		

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign

Do you want $1 to go to this fund? ☐ Yes ☒ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Note: Checking "Yes" will not change your tax or reduce your refund.

Filing Status

Check only one box.

1 ☒ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here.
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here.
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.
b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

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If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who
- lived with you
- didn't live with you due to divorce or separation (see page 9)

No. of other dependents on 6c

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ 1

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*		7	
8a	**Taxable** interest income *(also attach Schedule B if over $400)*		8a	13,000 -
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a	8b 8,000 -		
9	Dividend income *(also attach Schedule B if over $400)*		9	400 -
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions		10	
11	Alimony received		11	
12	Business income or (loss) *(attach Schedule C)*		12	
13	Capital gain or (loss) *(attach Schedule D)*		13	(2,525 -)
14	Capital gain distributions not reported on line 13 (see page 11)		14	
15	Other gains or (losses) *(attach Form 4797)*		15	
16a	Total IRA distributions	16a	16b Taxable amount (see page 11) 16b	
17a	Total pensions and annuities	17a	17b Taxable amount (see page 12) 17b	6,000 -
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18	
19	Farm income or (loss) *(attach Schedule F)*		19	
20	Unemployment compensation (insurance) (see page 13)		20	
21a	Social security benefits	21a 4,800 -	21b Taxable amount (see page 13) 21b	1,138 -
22	Other income (list type and amount—see page 13)		22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶		23	18,013 -

Adjustments to Income

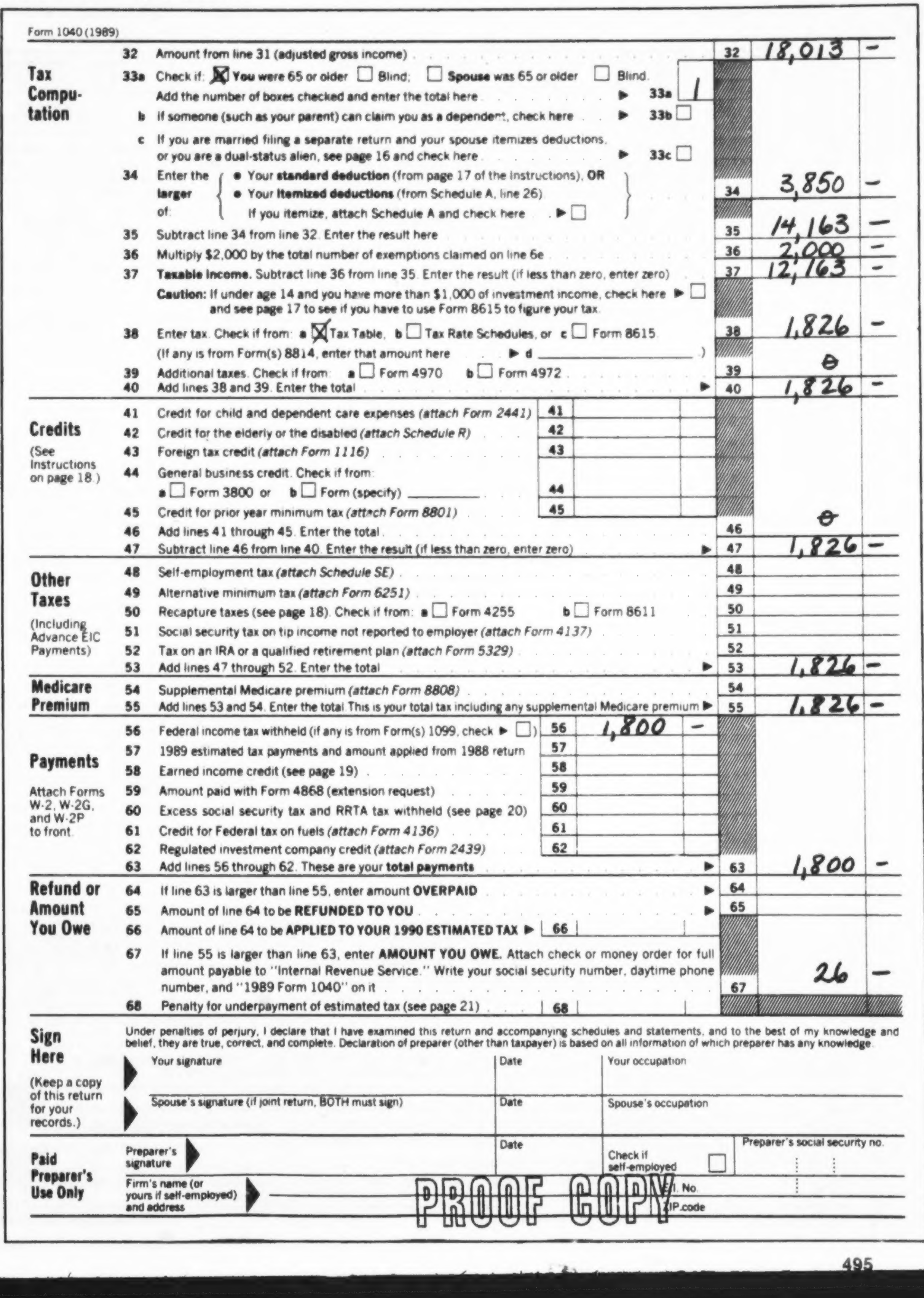
(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24		
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25		
26	Self-employed health insurance deduction, from worksheet on page 15	26		
27	Keogh retirement plan and self-employed SEP deduction	27		
28	Penalty on early withdrawal of savings	28		
29	Alimony paid. **a** Recipient's last name and **b** social security number.	29		
30	Add lines 24 through 29. These are your **total adjustments** ▶		30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	18,013 -

Exhibit CP–4, filled-in



Form 1040 (1989)

Tax Computation	32	Amount from line 31 (adjusted gross income)			32	18,013 –
	33a	Check if: ☒ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here ▶	33a	1		
	b	If someone (such as your parent) can claim you as a dependent, check here ▶	33b	☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶	33c	☐		
	34	Enter the **larger** of: • Your **standard deduction** (from page 17 of the Instructions), **OR** • Your **itemized deductions** (from Schedule A, line 26). If you itemize, attach Schedule A and check here ▶ ☐			34	3,850 –
	35	Subtract line 34 from line 32. Enter the result here			35	14,163 –
	36	Multiply $2,000 by the total number of exemptions claimed on line 6e			36	2,000 –
	37	**Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) **Caution:** If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.			37	12,163 –
	38	Enter tax. Check if from: a ☒ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615. (If any is from Form(s) 8814, enter that amount here ▶ d ________)			38	1,826 –
	39	Additional taxes. Check if from: a ☐ Form 4970 b ☐ Form 4972			39	0
	40	Add lines 38 and 39. Enter the total ▶			40	1,826 –
Credits (See Instructions on page 18.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41			
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42			
	43	Foreign tax credit *(attach Form 1116)*	43			
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ________	44			
	45	Credit for prior year minimum tax *(attach Form 8801)*	45			
	46	Add lines 41 through 45. Enter the total			46	0
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶			47	1,826 –
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*			48	
	49	Alternative minimum tax *(attach Form 6251)*			49	
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611			50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*			51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*			52	
	53	Add lines 47 through 52. Enter the total ▶			53	1,826 –
Medicare Premium	54	Supplemental Medicare premium *(attach Form 8808)*			54	
	55	Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶			55	1,826 –
Payments Attach Forms W-2, W-2G, and W-2P to front.	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56	1,800 –		
	57	1989 estimated tax payments and amount applied from 1988 return	57			
	58	Earned income credit (see page 19)	58			
	59	Amount paid with Form 4868 (extension request)	59			
	60	Excess social security tax and RRTA tax withheld (see page 20)	60			
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61			
	62	Regulated investment company credit *(attach Form 2439)*	62			
	63	Add lines 56 through 62. These are your **total payments** ▶			63	1,800 –
Refund or Amount You Owe	64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶			64	
	65	Amount of line 64 to be **REFUNDED TO YOU** ▶			65	
	66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶	66			
	67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it			67	26 –
	68	Penalty for underpayment of estimated tax (see page 21)	68			

Sign Here (Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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Exhibit CP-5, filled-in

Schedules A&B (Form 1040) 1989 OMB No. 1545-0074

Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.) Drew Rich

Your social security number 999 00 2315

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

	Interest Income		Amount
1	Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2	Other interest income. (List name of payer.) ▶		
	Main Street Bank	2	13,000 -
3	Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	13,000 -

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

	Dividend Income				Amount
4	Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶				
	CCS Corporation			4	450 -
5	Add the amounts on line 4. Enter the total here			5	450 -
6	Capital gain distributions. Enter here and on Schedule D, line 13.*	6	50 -		
7	Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7			
8	Add the amounts on lines 6 and 7. Enter the total here			8	50 -
9	Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶			9	400 -

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.

		Yes	No
10a	At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		X
b	If "Yes," enter the name of the foreign country ▶		
11	Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		X

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exhibit CP-6, filled-in

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B)

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. 12A

Name(s) shown on Form 1040: Drew Rich

Your social security number: 999 00 2315

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples — 1 — 27,000 -

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see Instructions)	(e) Cost or other basis (see Instructions)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
60 sh. NET	1/14/89	5/19/89	7,000 -	9,225 -	2,225 -	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total (add column (d) of lines 2a and 2b) ► 2c			7,000 -			
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

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3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3		
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	(2,225 -)	
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7	8		(2,225 -)

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a)	(b)	(c)	(d)	(e)	(f) LOSS	(g) GAIN
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
225 sh. TRO	4/24/75	6/14/89	20,000 -	20,350 -	350 -	
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total (add column (d) of lines 9a and 9b) ► 9c			20,000 -			
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)						

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10		
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13		50 -
14 Enter gain from Form 4797, line 7 or 9	14		
15 Long-term capital loss carryover	15		
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	(350 -)	50 -
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16	17		(300 -)

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Exhibit CP-7, filled-in

Schedule D (Form 1040) 1989 Attachment Sequence No. 12A Page 2

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.)

Your social security number

Part III **Summary of Parts I and II**

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19 . . . . 18 (2,525 -)

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) . . . . 19 (2,525 -)

Note: *When figuring whether 19a or 19b is* ***smaller****, treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV **Figure Your Capital Loss Carryovers From 1989 to 1990**

Section A.—Figure Your Carryover Limit

20 Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)** 20

Note: *For lines 21 through 36, treat all amounts as positive.*

21 Enter the loss shown on line 19 21

22 Enter the amount shown on Form 1040, line 36 22

23 Combine lines 20, 21, and 22. If zero or less, enter zero 23

24 Enter the **smaller** of line 21 or line 23 24

Section B.—Figure Your Short-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss shown on line 8 25

26 Enter the gain, if any, shown on line 17 26

27 Enter the amount shown on line 24 27

28 Add lines 26 and 27 28

29 Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990** 29

Section C.—Figure Your Long-Term Capital Loss Carryover

(Complete this section only if there is a loss shown on line 17 and line 19.)

30 Enter the loss shown on line 17 30

31 Enter the gain, if any, shown on line 8 31

32 Enter the amount shown on line 24 32

33 Enter the amount, if any, shown on line 25 33

34 Subtract line 33 from line 32. If zero or less, enter zero 34

35 Add lines 31 and 34 35

36 Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990** 36

Part V **Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value**

37 Check here if you elect out of the installment method . . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . . ▶ ....

39 Enter the percentage of valuation of the note or other obligation . . . . . ▶

Part VI **Reconcile Forms 1099-B for Bartering Transactions**

(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule

40 Form 1040, line 22 40

41 Schedule C (Form 1040) 41

42 Schedule D (Form 1040) 42

43 Schedule E (Form 1040) 43

44 Schedule F (Form 1040) 44

PROOF COPY

45 Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶ 45

46 Total (add lines 40 through 45) 46

Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

Exhibit CP–8, filled-in

Social Security Benefits Worksheet (Keep for your records)

Check only one box

☒ **A.** Single, Head of household, or Qualifying widow(er) with dependent child
☐ **B.** Married filing a joint return
☐ **C.** Married filing a separate return and you lived with your spouse at any time in 1989
☐ **D.** Married filing a separate return and you **DID NOT** live with your spouse at any time in 1989. If you checked this box, write "D" on the dotted line to the left of line 21a.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable) 4,800

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

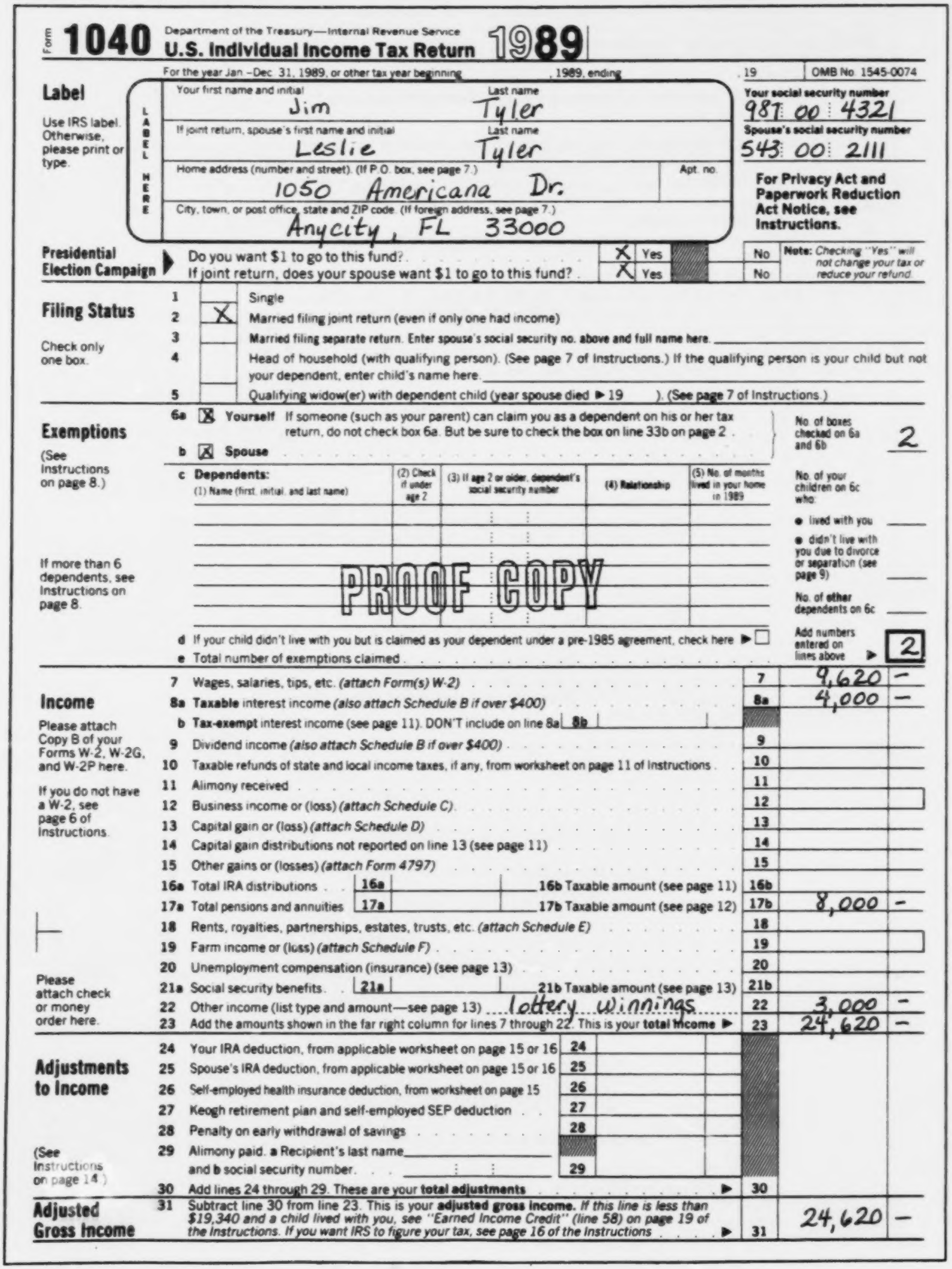
2. Divide the amount on line 1 above by 2 2,400
3. Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 15, 16b, 17b, 18 through 20, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 24,875
4. Add lines 2 and 3 27,275
5. Enter the total adjustments from Form 1040, line 30 0
6. Subtract line 5 from line 4 27,275
7. Enter { $25,000 if you checked Box **A** or **D**, or / $32,000 if you checked Box **B**, or / -0- if you checked Box **C** } 25,000
8. Subtract line 7 from line 6. Enter the result, but not less than zero 2,275

Note: *If line 8 is zero, stop here. None of your benefits are taxable. Do not enter any amounts on lines 21a or 21b unless you checked Box D above. If you checked Box D, enter -0- on line 21b and write "D" on the dotted line next to line 21a. If line 8 is more than zero, go on to line 9.*

9. Divide the amount on line 8 above by 2 1,138
10. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 9 above. Enter the **smaller** of the two amounts here and on Form 1040, line 21b 1,138

Note: *If part of your benefits are taxable for 1989* ***AND*** *they include benefits paid in 1989 that were for 1984 through 1988, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.*

Exhibit CP-9, filled-in



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Jim
Last name: Tyler
Your social security number: 987 00 4321

If joint return, spouse's first name and initial: Leslie
Last name: Tyler
Spouse's social security number: 543 00 2111

Home address (number and street). (If P.O. box, see page 7.): 1050 Americana Dr.
Apt. no.

City, town, or post office, state and ZIP code. (If foreign address, see page 7.): Anycity, FL 33000

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign
Do you want $1 to go to this fund? ☒ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☒ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing joint return (even if only one had income)
3 ☐ **Married filing separate return. Enter spouse's social security no. above and full name here.** ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.
b ☒ **Spouse**

No. of boxes checked on 6a and 6b: 2

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989

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If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you ______
- didn't live with you due to divorce or separation (see page 9) ______

No. of other dependents on 6c ______

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ 2

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	9,620 –
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	4,000 –
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b		
9	Dividend income *(also attach Schedule B if over $400)*	9	
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	
14	Capital gain distributions not reported on line 13 (see page 11)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions 16a / 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a / 17b Taxable amount (see page 12)	17b	8,000 –
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits 21a / 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13) lottery winnings	22	3,000 –
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	24,620 –

Adjustments to Income

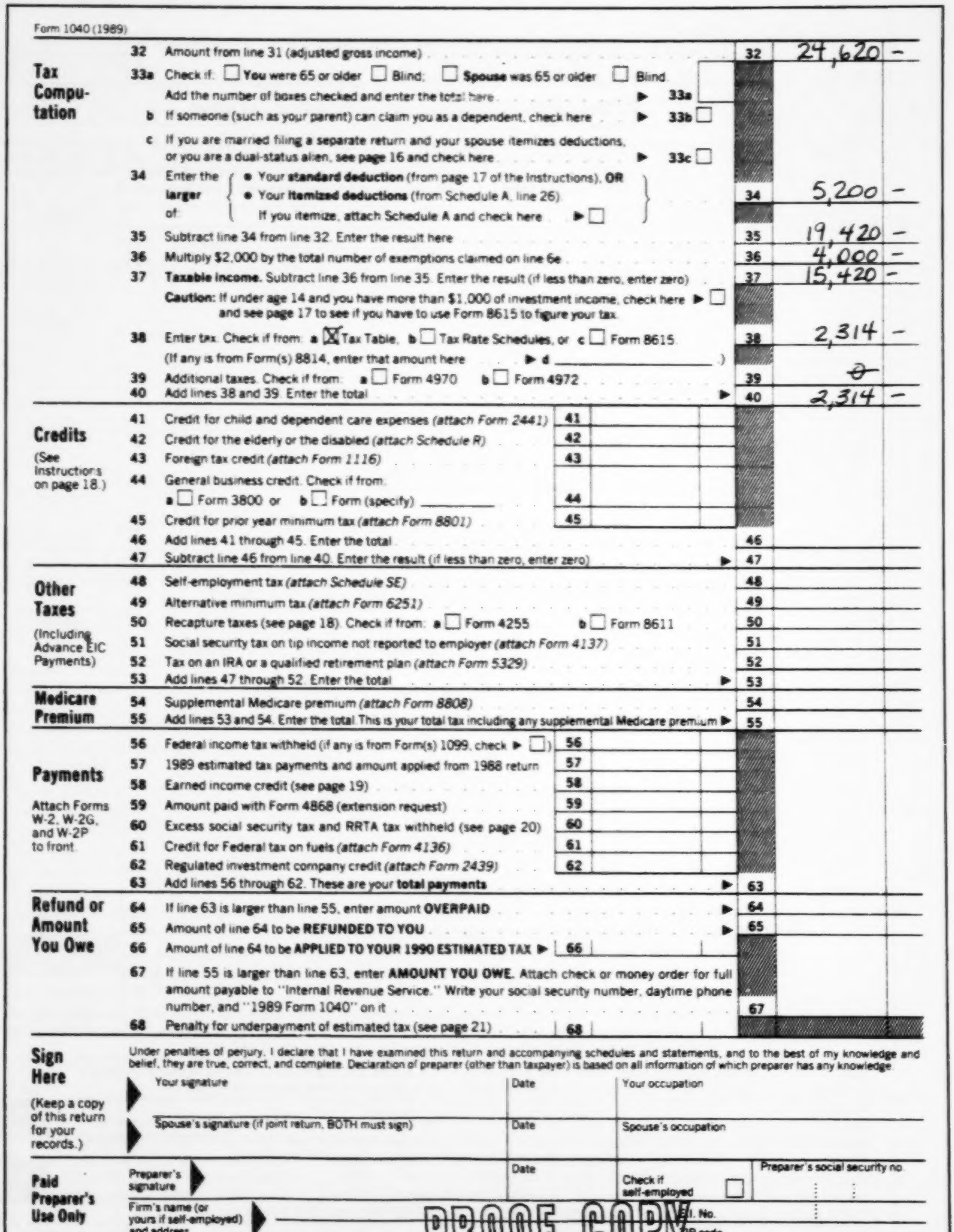
(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name ______ and **b** social security number ______	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31 Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶ 31 24,620 –

Exhibit CP–10, filled-in



Form 1040 (1989)

Tax Computation	32	Amount from line 31 (adjusted gross income)	32	24,620 –
	33a	Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here ▶ 33a ☐		
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 33b ☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶ 33c ☐		
	34	Enter the **larger** of: • Your **standard deduction** (from page 17 of the Instructions), **OR** • Your **itemized deductions** (from Schedule A, line 26). If you itemize, attach Schedule A and check here ▶ ☐	34	5,200 –
	35	Subtract line 34 from line 32. Enter the result here	35	19,420 –
	36	Multiply $2,000 by the total number of exemptions claimed on line 6e	36	4,000 –
	37	**Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero)	37	15,420 –
		Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.		
	38	Enter tax. Check if from: a ☒ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615. (If any is from Form(s) 8814, enter that amount here ▶ d ______)	38	2,314 –
	39	Additional taxes. Check if from: a ☐ Form 4970 b ☐ Form 4972	39	0
	40	Add lines 38 and 39. Enter the total ▶	40	2,314 –
Credits (See Instructions on page 18.)	41	Credit for child and dependent care expenses *(attach Form 2441)* 41		
	42	Credit for the elderly or the disabled *(attach Schedule R)* 42		
	43	Foreign tax credit *(attach Form 1116)* 43		
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ______ 44		
	45	Credit for prior year minimum tax *(attach Form 8801)* 45		
	46	Add lines 41 through 45. Enter the total	46	
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶	47	
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*	48	
	49	Alternative minimum tax *(attach Form 6251)*	49	
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611	50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*	51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*	52	
	53	Add lines 47 through 52. Enter the total ▶	53	
Medicare Premium	54	Supplemental Medicare premium *(attach Form 8808)*	54	
	55	Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶	55	
Payments Attach Forms W-2, W-2G, and W-2P to front.	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐) 56		
	57	1989 estimated tax payments and amount applied from 1988 return 57		
	58	Earned income credit (see page 19) 58		
	59	Amount paid with Form 4868 (extension request) 59		
	60	Excess social security tax and RRTA tax withheld (see page 20) 60		
	61	Credit for Federal tax on fuels *(attach Form 4136)* 61		
	62	Regulated investment company credit *(attach Form 2439)* 62		
	63	Add lines 56 through 62. These are your **total payments** ▶	63	
Refund or Amount You Owe	64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶	64	
	65	Amount of line 64 to be **REFUNDED TO YOU** ▶	65	
	66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶ 66		
	67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it	67	
	68	Penalty for underpayment of estimated tax (see page 21) 68		

Sign Here (Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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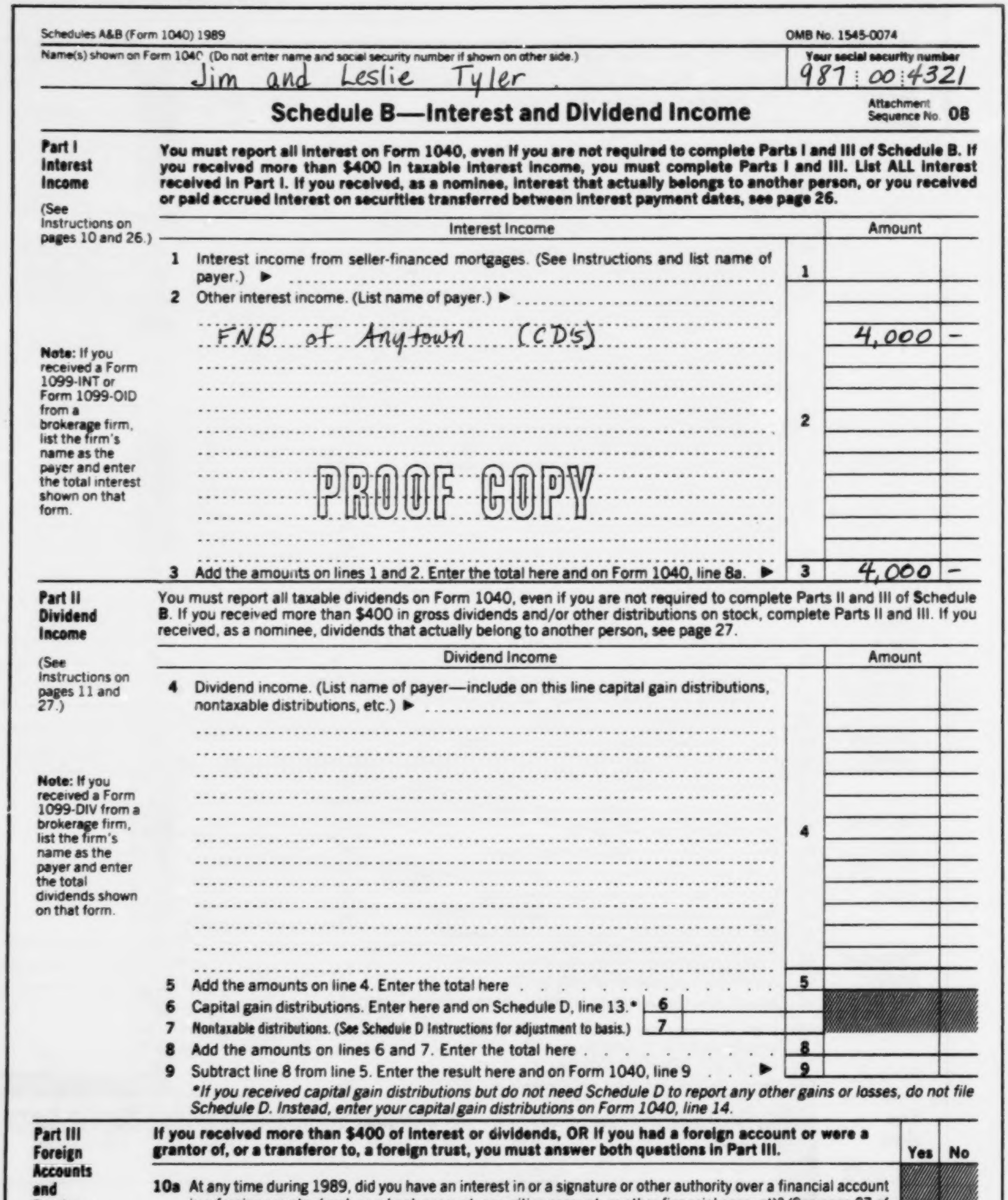
Exhibit CP-11, filled-in



Schedules A&B (Form 1040) 1989 OMB No. 1545-0074

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.) Jim and Leslie Tyler

Your social security number 987 : 00 : 4321

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 10 and 26.)

You must report all interest on Form 1040, even if you are not required to complete Parts I and III of Schedule B. If you received more than $400 in taxable interest income, you must complete Parts I and III. List ALL interest received in Part I. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 26.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income. (List name of payer.) ▶	2	
FNB of Anytown (CD's)		4,000 –
3 Add the amounts on lines 1 and 2. Enter the total here and on Form 1040, line 8a. ▶	3	4,000 –

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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Part II Dividend Income

(See Instructions on pages 11 and 27.)

You must report all taxable dividends on Form 1040, even if you are not required to complete Parts II and III of Schedule B. If you received more than $400 in gross dividends and/or other distributions on stock, complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 27.

Dividend Income			Amount
4 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶		4	
5 Add the amounts on line 4. Enter the total here		5	
6 Capital gain distributions. Enter here and on Schedule D, line 13.*	6		
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7		
8 Add the amounts on lines 6 and 7. Enter the total here		8	
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 9 ▶		9	

Note: If you received a Form 1099-DIV from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, do not file Schedule D. Instead, enter your capital gain distributions on Form 1040, line 14.*

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 27.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
10a At any time during 1989, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 27 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		X
b If "Yes," enter the name of the foreign country ▶		
11 Were you the grantor of, or transferor to, a foreign trust that existed during 1989, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		X

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule B (Form 1040) 1989**

Exhibit CP-12, filled-in

Schedule R
(Form 1040)
Department of the Treasury
Internal Revenue Service

Credit for the Elderly or the Disabled

▶ **For Paperwork Reduction Act Notice, see Form 1040 Instructions.**
▶ **Attach to Form 1040.** ▶ **See separate instructions for Schedule R.**

OMB No. 1545-0074
1989
Attachment Sequence No. 17

Name(s) shown on Form 1040: Jim and Leslie Tyler

Your social security number: 987 00 4321

You may be able to use Schedule R to reduce your tax if by the end of 1989:

- You were 65 or older, **OR**
- You were under 65, you retired on **permanent and total** disability, and you received taxable disability income.

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R Instructions for details.

Note: *In most cases IRS can figure this credit for you. See page 16 of the Form 1040 Instructions.*

Part I **Check the Box That Applies to Your Filing Status and Age** (Check only one box)

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If your filing status is:		**And by the end of 1989:**	**Check box:**
Single*	1	You were 65 or older	1 ☐
	2	You were under 65 and you retired on permanent and total disability	2 ☐
* Includes Head of household and Qualifying widow(er) with dependent child			
Married filing a joint return	3	Both spouses were 65 or older	3 ☐
	4	Both spouses were under 65, but only one spouse retired on permanent and total disability	4 ☒
	5	Both spouses were under 65, and both retired on permanent and total disability	5 ☐
	6	One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability	6 ☐
	7	One spouse was 65 or older, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7 ☐
Married filing a separate return	8	You were 65 or older, and you did not live with your spouse at any time in 1989	8 ☐
	9	You were under 65, you retired on permanent and total disability, and you did not live with your spouse at any time in 1989	9 ☐

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.*

Part II **Statement of Permanent and Total Disability** (Complete **only** if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1989, check this box. ▶ ☒

If you checked this box, you do not have to file another statement for 1989. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ______________________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ____________

Physician: Sign your name on **either** line A or B below and check the box to the right of your signature.

A The disability has lasted, or can be expected to last, continuously for at least a year . . . . ____________ Physician's signature ____ Date **A** ☐

B There is no reasonable probability that the disabled condition will ever improve . . . . ____________ Physician's signature ____ Date **B** ☐

Physician's name	Physician's address

Instructions for Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided.

Physician

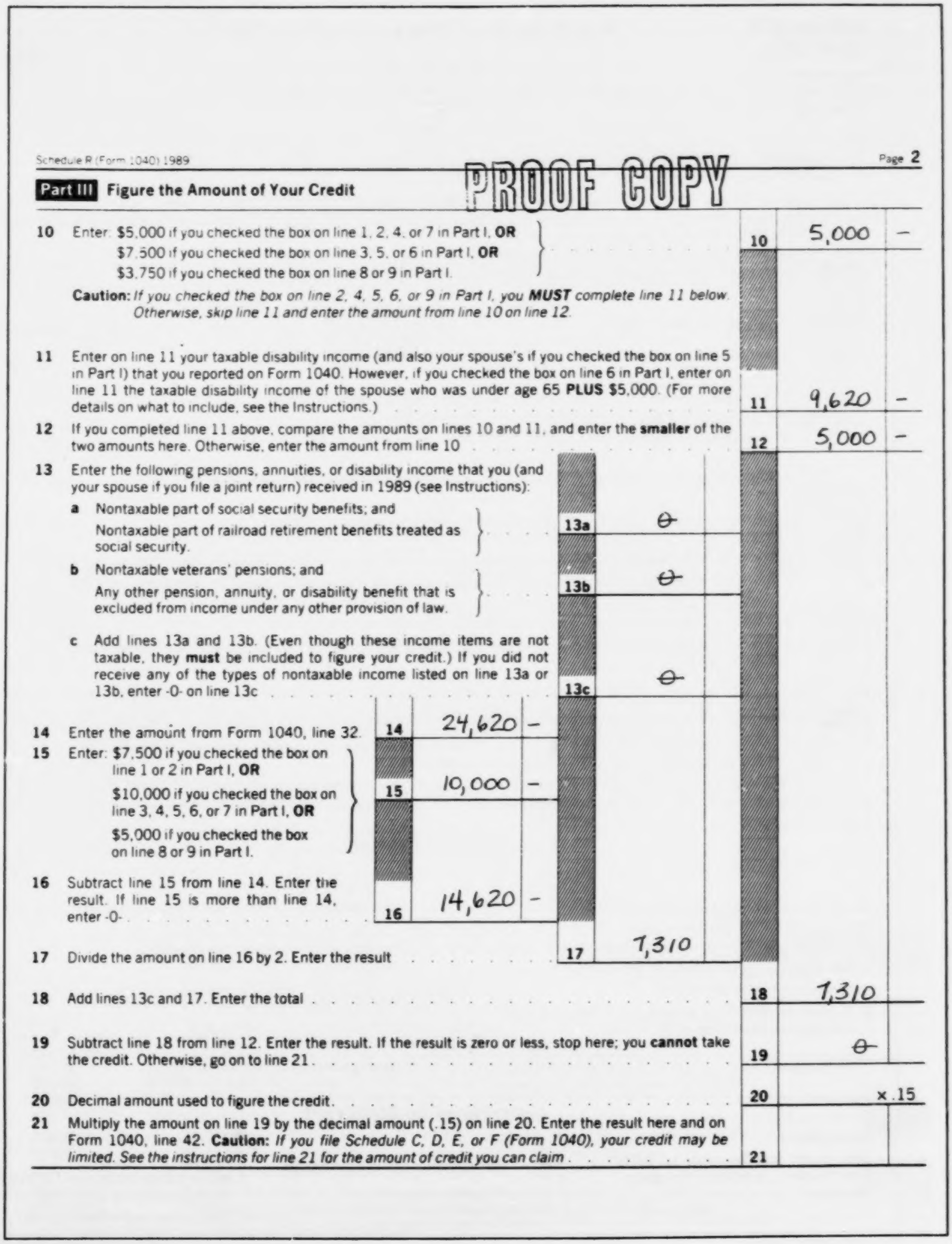
A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the disability:
  1. has lasted, or can be expected to last, continuously for at least a year; or
  2. can be expected to lead to death.

(Continued on back)

Schedule R (Form 1040) 1989

Exhibit CP–13, filled-in



Schedule R (Form 1040) 1989 Page 2

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Part III **Figure the Amount of Your Credit**

10 Enter: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR**
$7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR**
$3,750 if you checked the box on line 8 or 9 in Part I. . . . . **10** 5,000 –

Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you **MUST** complete line 11 below. Otherwise, skip line 11 and enter the amount from line 10 on line 12.*

11 Enter on line 11 your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form 1040. However, if you checked the box on line 6 in Part I, enter on line 11 the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.) . . . . **11** 9,620 –

12 If you completed line 11 above, compare the amounts on lines 10 and 11, and enter the **smaller** of the two amounts here. Otherwise, enter the amount from line 10 . . . . **12** 5,000 –

13 Enter the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1989 (see Instructions):

a Nontaxable part of social security benefits; and Nontaxable part of railroad retirement benefits treated as social security. **13a** 0

b Nontaxable veterans' pensions; and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law. **13b** 0

c Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c **13c** 0

14 Enter the amount from Form 1040, line 32. **14** 24,620 –

15 Enter: $7,500 if you checked the box on line 1 or 2 in Part I, **OR**
$10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR**
$5,000 if you checked the box on line 8 or 9 in Part I. **15** 10,000 –

16 Subtract line 15 from line 14. Enter the result. If line 15 is more than line 14, enter -0- . . . . **16** 14,620 –

17 Divide the amount on line 16 by 2. Enter the result **17** 7,310

18 Add lines 13c and 17. Enter the total **18** 7,310

19 Subtract line 18 from line 12. Enter the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21 . . . . **19** 0

20 Decimal amount used to figure the credit. . . . . **20** × .15

21 Multiply the amount on line 19 by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim* **21**

Exhibit CP-14, filled-in

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ See Separate Instructions

▶ Attach to Form 1040 for year of sale.

OMB No. 1545-0072

1989

Attachment Sequence No. 22

Please Type or Print

Your first name and initial (If joint, also give spouse's name and initial.): Jim and Leslie
Last name: Tyler
Your social security number: 987 00 4321
Present home address (no., street, and apt. no., or rural route) (or P.O. box no. if mail is not delivered to street address): 1050 Americana Dr.
Spouse's social security number: 543 00 2111
City, town, or post office, state, and ZIP code: Anycity, FL 33000

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Part I Facts About You and Your Home

		Yes	No
1a	Date former main home was sold ▶ 12/1/89		
b	Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale. (See Instructions for line 1b.) ▶ $ 0		
2a	Have you bought or built a new main home?	X	
b	Are any rooms in either main home rented out or used for business for which a deduction is allowed? (If "Yes," see Instructions.)		X
3a	Were you 55 or older on date of sale?	X	
b	Was your spouse 55 or older on date of sale? **If you answered "No" to 3a and 3b, do not complete 3c through 3f or Part III.**	X	
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as a main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale?	X	
d	**If you answered "Yes" to 3c, do you choose to take the one-time exclusion of the gain on the sale?**	X	
e	At time of sale, who owned the home? ☐ you ☐ your spouse ☒ both of you		
f	Social security number of spouse, at time of sale, if different from above ▶ (Enter "None" if you were not married at time of sale.)		

Part II Figure Your Gain (Do not include amounts that you deduct as moving expenses.)

4	Selling price of home. (Do not include personal property items.)	4	120,000 –
5	Expense of sale. (Include sales commissions, advertising, legal, etc.)	5	0
6	Subtract line 5 from line 4. This is the amount realized	6	120,000 –
7	Basis of home sold (See Instructions.)	7	50,000 –
8a	Subtract line 7 from line 6 (gain on sale). If zero or less, enter zero and do not complete the rest of the form. Enter the gain from this line on Schedule D, line 3 or 10,* unless you bought another main home or checked "Yes" to 3d. Then continue with this form	8a	70,000 –
b	If you haven't replaced your home, do you plan to do so within the replacement period? (If "Yes," see Instructions under When and Where To File.) ☐ Yes ☐ No		

Part III If Age 55 or Older, Figure Your One-Time Exclusion *(Complete this part only if you checked "Yes" to 3d.)*

9	Enter the **smaller** of line 8a or $125,000 ($62,500, if married filing separate return) (see Instructions)	9	70,000 –
10	Subtract line 9 from line 8a (gain). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10,* unless you bought another main home. Then continue with this form	10	0

Part IV Figure Gain To Be Postponed and Adjusted Basis of New Home *(Complete this part if you bought another main home.)*

11	Fixing-up expenses. (See Instructions for time limits.)	11	
12	Subtract line 11 from line 6 (adjusted sales price)	12	
13a	Cost of new home	13a	
b	Enter the date you moved into your new main home ▶		
14	Subtract line 13a plus line 9 (if applicable) from line 12. If result is zero or less, enter zero. Do not enter more than line 8a or line 10 (if applicable). This is the gain taxable this year. Enter the gain from this line on Schedule D, line 3 or 10*.	14	
15	Subtract line 14 from line 8a. **However**, if you completed Part III, subtract line 14 from line 10. (This is the gain to be postponed.)	15	
16	Subtract line 15 from line 13 (adjusted basis of new main home)	16	

***Caution:** If you completed Form 6252 for the home in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

Please Sign Here

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

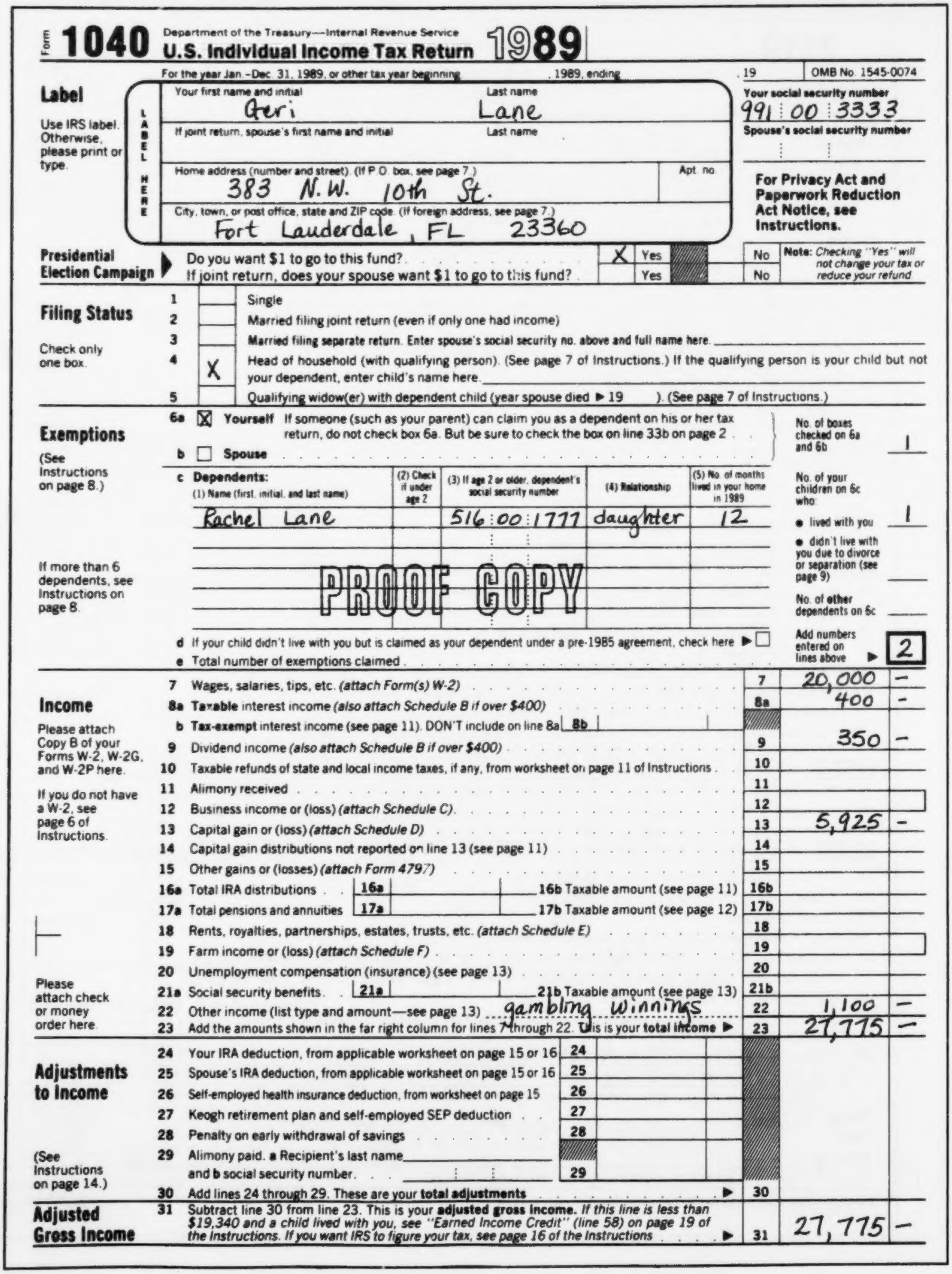
Your signature ▶ Date Spouse's Signature ▶ Date

(If joint return, both must sign.) (Sign and date only if not attached to your tax return.)

For Paperwork Reduction Act Notice, see separate Instructions.

Form **2119** (1989)

Exhibit CP-17, filled-in



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1989**

For the year Jan.–Dec. 31, 1989, or other tax year beginning , 1989, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Geri
Last name: Lane
Your social security number: 991 00 3333
If joint return, spouse's first name and initial
Last name
Spouse's social security number
Home address (number and street). (If P.O. box, see page 7.): 383 N.W. 10th St.
Apt. no.
City, town, or post office, state and ZIP code. (If foreign address, see page 7.): Fort Lauderdale, FL 23360

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign

Do you want $1 to go to this fund?	X Yes		No
If joint return, does your spouse want $1 to go to this fund?	Yes		No

Note: *Checking "Yes" will not change your tax or reduce your refund*

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here.
4 ☒ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here.
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 8.)

6a ☒ **Yourself** If someone (such as your parent) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.
b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1989
Rachel Lane		516 00 1777	daughter	12

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If more than 6 dependents, see Instructions on page 8.

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 9)

No. of other dependents on 6c

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed

Add numbers entered on lines above ▶ 2

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	20,000 –
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	400 –
b	**Tax-exempt** interest income (see page 11). DON'T include on line 8a 8b		
9	Dividend income *(also attach Schedule B if over $400)*	9	350 –
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) *(attach Schedule D)*	13	5,925 –
14	Capital gain distributions not reported on line 13 (see page 11)	14	
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions 16a 16b Taxable amount (see page 11)	16b	
17a	Total pensions and annuities 17a 17b Taxable amount (see page 12)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 13)	20	
21a	Social security benefits 21a 21b Taxable amount (see page 13)	21b	
22	Other income (list type and amount—see page 13) gambling winnings	22	1,100 –
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	27,775 –

Adjustments to Income

(See Instructions on page 14.)

24	Your IRA deduction, from applicable worksheet on page 15 or 16	24	
25	Spouse's IRA deduction, from applicable worksheet on page 15 or 16	25	
26	Self-employed health insurance deduction, from worksheet on page 15	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. **a** Recipient's last name and **b** social security number	29	
30	Add lines 24 through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this line is less than $19,340 and a child lived with you, see "Earned Income Credit" (line 58) on page 19 of the Instructions. If you want IRS to figure your tax, see page 16 of the Instructions* ▶	31	27,775 –

Exhibit CP-18, filled-in

Form 1040 (1989)

Tax Computation	32	Amount from line 31 (adjusted gross income)			32	27,775 -
	33a	Check if: ☐ **You** were 65 or older ☐ Blind; ☐ **Spouse** was 65 or older ☐ Blind Add the number of boxes checked and enter the total here ▶ 33a ☐				
	b	If someone (such as your parent) can claim you as a dependent, check here ▶ 33b ☐				
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 16 and check here ▶ 33c ☐				
	34	Enter the **larger** of: • Your **standard deduction** (from page 17 of the Instructions), OR • Your **itemized deductions** (from Schedule A, line 26) If you itemize, attach Schedule A and check here ▶ ☒			34	7,439 -
	35	Subtract line 34 from line 32. Enter the result here			35	20,336 -
	36	Multiply $2,000 by the total number of exemptions claimed on line 6e			36	4,000 -
	37	**Taxable income.** Subtract line 36 from line 35. Enter the result (if less than zero, enter zero) **Caution:** If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 17 to see if you have to use Form 8615 to figure your tax.			37	16,336 -
	38	Enter tax. Check if from: a ☒ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615. (If any is from Form(s) 8814, enter that amount here ▶ d ______)			38	2,449 -
	39	Additional taxes. Check if from: a ☐ Form 4970 b ☐ Form 4972			39	0
	40	Add lines 38 and 39. Enter the total ▶			40	2,449 -
Credits (See Instructions on page 18.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41			
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42			
	43	Foreign tax credit *(attach Form 1116)*	43			
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ______	44			
	45	Credit for prior year minimum tax *(attach Form 8801)*	45			
	46	Add lines 41 through 45. Enter the total			46	0
	47	Subtract line 46 from line 40. Enter the result (if less than zero, enter zero) ▶			47	2,449 -
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*			48	
	49	Alternative minimum tax *(attach Form 6251)*			49	
	50	Recapture taxes (see page 18). Check if from: a ☐ Form 4255 b ☐ Form 8611			50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*			51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*			52	
	53	Add lines 47 through 52. Enter the total ▶			53	2,449 -
Medicare Premium	54	Supplemental Medicare premium *(attach Form 8808)*			54	
	55	Add lines 53 and 54. Enter the total. This is your total tax including any supplemental Medicare premium ▶			55	2,449 -
Payments Attach Forms W-2, W-2G, and W-2P to front.	56	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	56	2,500 -		
	57	1989 estimated tax payments and amount applied from 1988 return	57			
	58	Earned income credit (see page 19)	58			
	59	Amount paid with Form 4868 (extension request)	59			
	60	Excess social security tax and RRTA tax withheld (see page 20)	60			
	61	Credit for Federal tax on fuels *(attach Form 4136)*	61			
	62	Regulated investment company credit *(attach Form 2439)*	62			
	63	Add lines 56 through 62. These are your **total payments** ▶			63	2,500 -
Refund or Amount You Owe	64	If line 63 is larger than line 55, enter amount **OVERPAID** ▶			64	51 -
	65	Amount of line 64 to be **REFUNDED TO YOU** ▶			65	51 -
	66	Amount of line 64 to be **APPLIED TO YOUR 1990 ESTIMATED TAX** ▶	66			
	67	If line 55 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1989 Form 1040" on it			67	
	68	Penalty for underpayment of estimated tax (see page 21)	68			

Sign Here

(Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation
Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address		E.I. No.	
		ZIP code	

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Exhibit CP-19, filled-in

SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074
1989
Attachment Sequence No. **07**

Name(s) shown on Form 1040: Geri Lane

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Your social security number: 991 00 3333

Medical and Dental Expenses **(Do not include expenses reimbursed or paid by others.)**	1a	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, medical insurance premiums you paid, etc.	1a	845 –	
	b	Other. (List—include hearing aids, dentures, eyeglasses, transportation and lodging, etc.) ▶	1b		
(See Instructions on page 23.)	2	Add the amounts on lines 1a and 1b. Enter the total here	2	845 –	
	3	Multiply the amount on Form 1040, line 32, by 7.5% (.075)	3	2,083 –	
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ▶	4		0
Taxes You Paid	5	State and local income taxes	5		
	6	Real estate taxes	6	965 –	
(See Instructions on page 23.)	7	Other taxes. (List—include personal property taxes.) ▶ Personal property tax	7	390 –	
	8	Add the amounts on lines 5 through 7. Enter the total here. **Total** taxes ▶	8		1,355 –
Interest You Paid	9a	Deductible home mortgage interest (from Form 1098) that you paid to financial institutions. Report deductible points on line 10.	9a	5,200 –	
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶	9b		
(See Instructions on page 24.)	10	Deductible points. (See Instructions for special rules.)	10		
	11	Deductible investment interest. (See page 24.)	11		
	12a	Personal interest you paid. (See page 24.) 12a 1,620 –			
	b	Multiply the amount on line 12a by 20% (.20). Enter the result	12b	324 –	
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ▶	13		5,524 –
Gifts to Charity	14	Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	14	350 –	
(See Instructions on page 25.)	15	Other than cash or check. (You must attach Form 8283 if over $500.)	15		
	16	Carryover from prior year	16		
	17	Add the amounts on lines 14 through 16. Enter the total here. **Total** contributions ▶	17		350 –
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 25 of the Instructions.) ▶	18		
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 26 of the Instructions.) ▶	19		
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	20		
(See page 26 for expenses to deduct here.)	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶ Union dues $175 – tax return prep fee $60 –	21	235 –	
	22	Add the amounts on lines 20 and 21. Enter the total.	22	235 –	
	23	Multiply the amount on Form 1040, line 32, by 2% (.02). Enter the result here	23	556 –	
	24	Subtract line 23 from line 22. Enter the result. If zero or less, enter -0- ▶	24		0
Other Miscellaneous Deductions	25	Other (from list on page 26 of Instructions). List type and amount ▶ gambling losses $210 –	25		210 –
Total Itemized Deductions	26	Add the amounts on lines 4, 8, 13, 17, 18, 19, 24, and 25. Enter the total here. Then enter on Form 1040, line 34, the LARGER of this total or your standard deduction from page 17 of the Instructions ▶	26		7,439 –

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule A (Form 1040) 1989**

Exhibit CP-20, filled-in

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses
(And Reconciliation of Forms 1099-B)

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
▶ For more space to list transactions for lines 2a and 9, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1989
Attachment Sequence No. **12A**

Name(s) shown on Form 1040: Geri Lane
Your social security number: 991 00 3333

1 Report here the total sales of stocks, bonds, etc., reported for 1989 to you on Form(s) 1099-B or on an equivalent substitute statement(s). If this amount differs from the total of lines 2c and 9c, column (d), attach a statement explaining the difference. See the Instructions for line 1 for examples	1	8,000 -

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see instructions)	**(e)** Cost or other basis (see instructions)	**(f)** LOSS If (e) is more than (d), subtract (d) from (e)	**(g)** GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
25 sh. Std. Elec	2/19/89	6/11/89	8,000 -	2,075 -		5,925 -
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)				▨		
2c Total (add column (d) of lines 2a and 2b) ▶ 2c			8,000 -	▨	▨	▨
2d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)			▨	▨	▨	▨

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3 Short-term gain from sale or exchange of your home from Form 2119, line 8a or 14	3	▨	
4 Short-term gain from installment sales from Form 6252, line 22 or 30	4	▨	
5 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries	5		
6 Short-term capital loss carryover	6		▨
7 Add all of the transactions on lines 2a, 2b, and 2d and lines 3 through 6 in columns (f) and (g)	7	( )	5,925 -
8 Net short-term gain or (loss), combine columns (f) and (g) of line 7		8	5,925 -

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

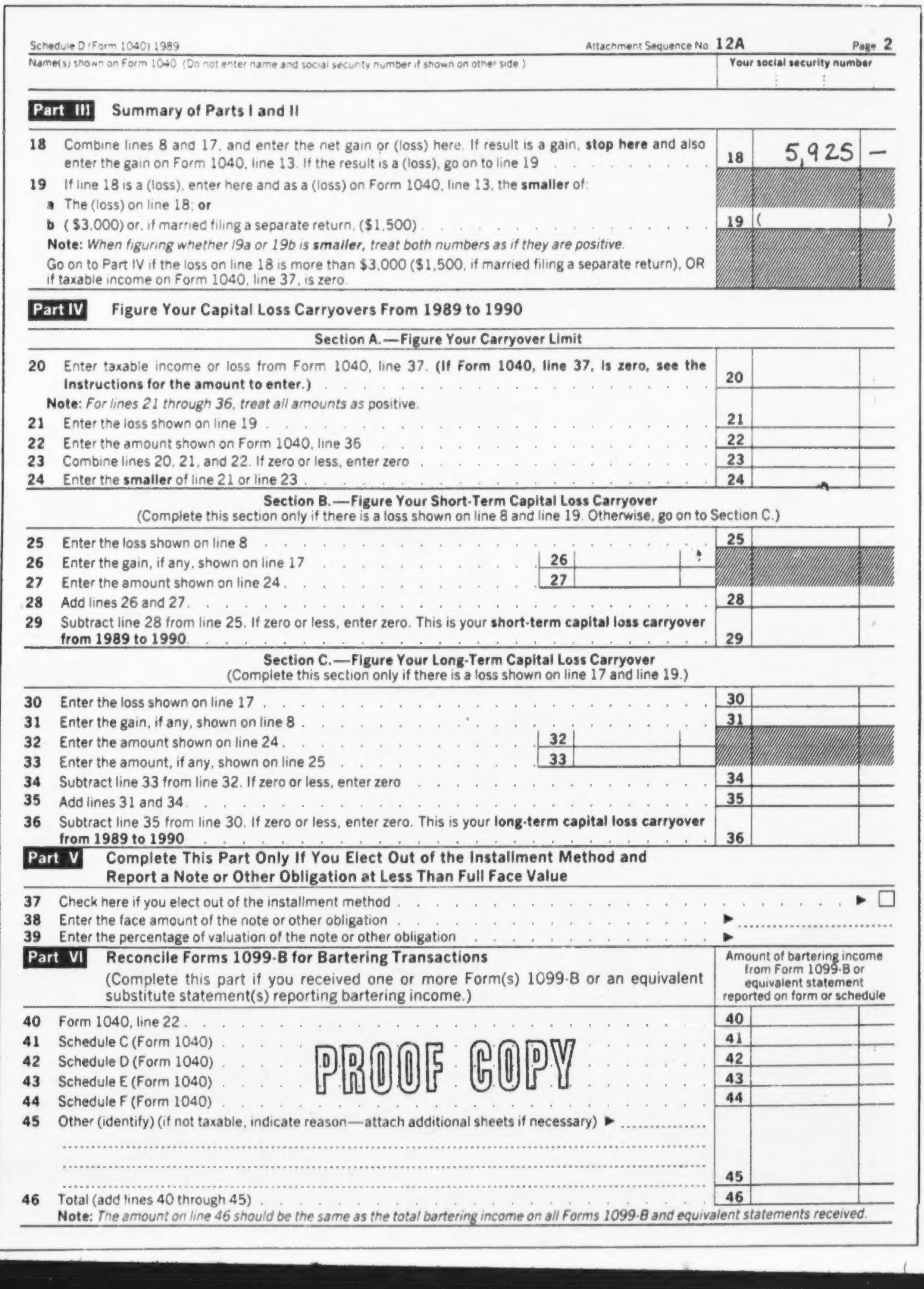
(a)	(b)	(c)	(d)	(e)	(f)	(g)
9a Stocks, Bonds, and Other Securities (Include all Form 1099-B transactions. See Instructions.)						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)				▨		
9c Total (add column (d) of lines 9a and 9b) ▶ 9c				▨	▨	▨
9d Other Transactions (Include Real Estate Transactions From Forms 1099-S.)			▨	▨	▨	▨

10 Long-term gain from sale or exchange of your home from Form 2119, line 8a, 10, or 14	10	▨	
11 Long-term gain from installment sales from Form 6252, line 22 or 30	11	▨	
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries	12		
13 Capital gain distributions	13	▨	
14 Enter gain from Form 4797, line 7 or 9	14	▨	
15 Long-term capital loss carryover	15		▨
16 Add all of the transactions on lines 9a, 9b, and 9d and lines 10 through 15 in columns (f) and (g)	16	( )	
17 Net long-term gain or (loss), combine columns (f) and (g) of line 16		17	0

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule D (Form 1040) 1989

Exhibit CP-21, filled-in



Schedule D (Form 1040) 1989 Attachment Sequence No. 12A Page 2

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.) | Your social security number

Part III Summary of Parts I and II

18	Combine lines 8 and 17, and enter the net gain or (loss) here. If result is a gain, **stop here** and also enter the gain on Form 1040, line 13. If the result is a (loss), go on to line 19	18	5,925 —
19	If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:		
a	The (loss) on line 18; **or**		
b	($3,000) or, if married filing a separate return, ($1,500)	19	( )

Note: *When figuring whether 19a or 19b is* **smaller**, *treat both numbers as if they are positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Figure Your Capital Loss Carryovers From 1989 to 1990

Section A.—Figure Your Carryover Limit

20	Enter taxable income or loss from Form 1040, line 37. **(If Form 1040, line 37, is zero, see the Instructions for the amount to enter.)**	20	
	Note: *For lines 21 through 36, treat all amounts as* positive.		
21	Enter the loss shown on line 19	21	
22	Enter the amount shown on Form 1040, line 36	22	
23	Combine lines 20, 21, and 22. If zero or less, enter zero	23	
24	Enter the **smaller** of line 21 or line 23	24	

Section B.—Figure Your Short-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 8 and line 19. Otherwise, go on to Section C.)

25	Enter the loss shown on line 8	25	
26	Enter the gain, if any, shown on line 17 — 26		
27	Enter the amount shown on line 24 — 27		
28	Add lines 26 and 27	28	
29	Subtract line 28 from line 25. If zero or less, enter zero. This is your **short-term capital loss carryover from 1989 to 1990**	29	

Section C.—Figure Your Long-Term Capital Loss Carryover
(Complete this section only if there is a loss shown on line 17 and line 19.)

30	Enter the loss shown on line 17	30	
31	Enter the gain, if any, shown on line 8	31	
32	Enter the amount shown on line 24 — 32		
33	Enter the amount, if any, shown on line 25 — 33		
34	Subtract line 33 from line 32. If zero or less, enter zero	34	
35	Add lines 31 and 34	35	
36	Subtract line 35 from line 30. If zero or less, enter zero. This is your **long-term capital loss carryover from 1989 to 1990**	36	

Part V Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

37 Check here if you elect out of the installment method ▶ ☐

38 Enter the face amount of the note or other obligation ▶ ....

39 Enter the percentage of valuation of the note or other obligation ▶ ....

Part VI Reconcile Forms 1099-B for Bartering Transactions
(Complete this part if you received one or more Form(s) 1099-B or an equivalent substitute statement(s) reporting bartering income.)

			Amount of bartering income from Form 1099-B or equivalent statement reported on form or schedule
40	Form 1040, line 22	40	
41	Schedule C (Form 1040)	41	
42	Schedule D (Form 1040)	42	
43	Schedule E (Form 1040)	43	
44	Schedule F (Form 1040)	44	
45	Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	45	
46	Total (add lines 40 through 45)	46	

Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and equivalent statements received.*

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Index

Adjusted gross income..... 222, 227
Advance earned income credit..... 215, 283
Alimony:..... 206, 226
    Paid..... 226
    Received..... 206
Capital gain distributions..... 207
Capital Gain or Loss..... 311
    Holding periods..... 310
Casualty and theft losses..... 246
Charitable contributions..... 244
Child and dependent care expenses..... 137, 270
Credits:..... 137, 146, 270, 278, 292
    Child and dependent care..... 137, 270
    Earned income..... 146, 292
    Elderly and permanently disabled..... 278
    Mortgage interest..... 278
Dependents:..... 32, 40, 41, 42, 44, 46
    Citizenship..... 46
    Divorced or separated parents..... 42
    Gross income..... 44
    Joint return..... 46
    Multiple support..... 41
    Relationship..... 44
    Support..... 40
    Tests for..... 32, 40
Dividends..... 58, 69, 195, 196, 207
    Capital gain distributions..... 195, 207
    Form 1099–DIV..... 196
    How to report..... 69, 196
    Nontaxable..... 195
    Ordinary..... 195
Earned income credit..... 115, 146, 283, 292
    Advance..... 115, 283
Estimated tax..... 291, 433, 434, 436, 438, 439
    Alternatives..... 438
    Defined..... 433
    Farming and fishing..... 436
    Payment schedule..... 436
    Penalty for underpayment..... 439
    Underpayment..... 439
    Who must pay..... 434
Exclusion from income..... 352
    Sale of home..... 352
Exemption..... 39
    Dependents..... 39
Filing requirements..... 49, 50
    Who Must File Chart..... 50
Filing status:..... 29, 30, 31, 32
    Head of household..... 32
    Married joint return..... 30
    Married separate return..... 31
    Single..... 29
Forms:..... 16, 60, 185, 186, 187, 191, 192, 196, 313, 346, 347, 378, 379, 380, 384, 435, 437, 438
    1040EZ..... 16
        Who may file..... 16
    1040–ES..... 435, 437
    1099–B..... 313
    1099–DIV..... 196
    1099–INT..... 191
    1099–OID..... 192
    1099–R..... 378, 379
    1099–S..... 346
    2119..... 347
    1040A..... 60
        Who may file..... 60
    RRB–1099..... 380, 384
    RRB–W–2P..... 379
    SSA–1099..... 380, 384
    W–2..... 185
    W–2c..... 186
    W–2P..... 187, 379
    W–4; W–4P; and W–4S..... 438
Gain:..... 312, 352, 356, 361
    Exclusion, sale of home..... 352
    Postponed, sale of home..... 356, 361
    Stock, sale of..... 312
Holding period..... 310
Home, sale of..... 345, 346, 347, 349, 350, 352, 356, 361
    Basis..... 349, 361
    Exclusion of gain..... 352
    Form 1099–S..... 346
    Form 2119..... 347
    Improvements..... 349
    Postponing gain..... 356
    Principal home..... 345
    Recordkeeping..... 350
    Replacement period..... 356
Income:..... 26, 27, 205, 206, 207, 222, 368
    Adjusted gross..... 222
    Alimony..... 206
    Miscellaneous..... 205
    Nontaxable..... 27
    Pensions and annuities..... 368
    Social security benefits..... 207
    State tax refunds..... 205
    Taxable..... 26
Individual retirement arrangement (IRA):..... 78, 223, 369
    Contributions to..... 78, 223
    Distributions from..... 369
Installment method:..... 436
    Estimated tax..... 436
Interest:..... 58, 189, 190, 191, 192, 195, 225, 241, 242, 243
    Certificates of deposit..... 190
    Deduction..... 241
    Form 1099–INT..... 191
    Frozen deposits..... 189
    Home Mortgage Interest..... 241
    How to report..... 192
    Income..... 58, 189
    Investment..... 242
    Nondeductible..... 243
    Original Issue-discount..... 192
    Penalty, early withdrawal of savings..... 225
    Points..... 242
    Savings accounts..... 189
    Savings bonds..... 190
    Tax-exempt..... 195
Interest income..... 67, 189
    Tax exempt..... 195
Itemized deductions (see also particular type)..... 236
Loss..... 312
    Stock, sale of..... 312
Married taxpayers:..... 30, 78
    Filing status..... 30
    IRAs..... 78
Medical and dental expenses..... 236
Miscellaneous deductions..... 246
Original Issue discount..... 192
Penalty, underpayment of estimated tax..... 439
Pensions, annuities:..... 223, 368, 369, 371, 378, 379
    Defined..... 368
    General rule..... 369
    IRA contributions..... 78, 223
    IRA distributions..... 369
    Lump-sum distribution..... 378
    Railroad retirement..... 379
    Simplified General Rule..... 371
    Three-year rule..... 378
Postponed gain, sale of home..... 356, 361
Presidential Election Campaign Fund..... 308
Principal residence, defined..... 345
Procedures:..... 1, 7, 309
    Assembling return..... 309
    Identifying volunteer-prepared returns..... 1
    Volunteer hotline..... 7
Recordkeeping, sale of home..... 350
Rounding Off Dollars..... 184
Schedules (Form 1040):..... 192, 236, 314, 357, 408
    A..... 236
    B..... 192
        Part I. 192
    D..... 314, 357
    R..... 408
Social security benefits..... 207, 378, 383
Standard deduction 81, 82, 256, 257
    65 or over or blind..... 82, 257
State tax refunds..... 205
Stock:..... 310, 311, 312
    Basis..... 311
    Gain..... 312
    Holding period..... 310
    Loss..... 312
    Sale of..... 310
Supplemental Medicare Premium..... 109
Tax on Child's Investment Income..... 426
Tax payments:..... 144, 146, 288, 291, 292, 305
    Earned income credit..... 146, 292
    Estimated payments..... 291
    Form 1040..... 170
    Tax withheld..... 144, 288
    Underpayment..... 305
Tax Table..... 100, 261
Tax Withholding..... 445
Taxes, deduction for:..... 240, 241
    Real estate..... 240
    State and local..... 240
Taxes, nondeductible..... 241

Underpayment penalty, estimated tax..... 439

Unemployment compensation..... 71, 207

Volunteer Hotline..... 7

Wages, salaries..... 57, 65, 185

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Form **6317** (July 1988)
Department of the Treasury
Internal Revenue Service

Volunteer Assistor's Guide

Assistor's Evaluation Form

Now that you have completed your training, we would like to know how you feel about it. This information will help us improve the next course. Signing the form is optional, so feel free to express thoughtful, honest opinions. Included are a series of questions. Please check (✓) the appropriate space and write your comments, if any, in the space provided. Attach additional pages if needed.

Trainee's name *(optional)*	Program: ☐ VITA ☐ TCE	Method: ☐ Classroom ☐ Self-instructional	Training dates

Instruction included: ☐ Module I (Procedures and Techniques)
☐ Module II (Forms 1040 EZ and 1040A) ☐ Module III (Form 1040 only)
☐ Module IV (Elderly and Advanced Topics)

Training location

1. On a scale of 1 to 5 (5 is highest), how do you rate

Check one	1	2	3	4	5
a. Coursebook	☐	☐	☐	☐	☐
b. Test(s)	☐	☐	☐	☐	☐
c. Instructor	☐	☐	☐	☐	☐

2. Do you feel that you attained the objectives for the course? ☐ Yes ☐ No
If no, please explain why not:

3. Were you given sufficient time to complete the course? ☐ Yes ☐ No
If no, please explain:

4. Did the exercises aid you in learning to prepare Forms 1040EZ, 1040A, 1040X, and Form W-4? ☐ Yes ☐ No
If no, please explain:

5. Do you have any suggestions for changing the course? Consider such things as whether parts were too easy or too difficult, course length, the way the lessons are arranged, type of instruction, number and length of training sessions, and exercises. If yes, please explain: ☐ Yes ☐ No

6. Do you have any suggestions for improving the printed materials? Consider the usefulness of books, handouts, problems and exercises. If yes, please explain: ☐ Yes ☐ No

7. Was your instructor available to answer your questions and provide other assistance when needed? If no, please explain: ☐ Yes ☐ No

8. Do you have any other comments?

Cut or Fold Along Line